

## Comments on Insider Trading and the Use of Expert Networks

November 29, 2010

In light of the recent news surrounding insider-trading and expert network probes by the FBI and SEC, we at FPA believe it important to inform our clients and shareholders of our policies relating to insider trading and our use of expert networks.

FPA has always maintained a Code of Conduct designed to promote honest and ethical conduct, accurate disclosures, compliance with regulations, and accountability. Specifically relating to “insider trading,” FPA’s policies forbid trading, either personally or on behalf of others, on material nonpublic information or communicating material nonpublic information to others in violation of the law. FPA’s policies apply to every partner, officer, and employee, and extend to activities within and outside their duties at FPA.

As we have often discussed, our research process is thorough. Throughout our extensive due diligence and investment analysis, we utilize information from a variety of sources including trade publications, company filings, “street” research, and discussions with experts, all of which help us make informed investment decisions. We analyze this information gathered during the due diligence process in order to gauge the long-term valuation of an enterprise and not as a means to seek short-term trading gains. This is evidenced by our relatively low turnover and long average holding periods when compared to many other mutual funds and hedge funds. Our process runs counter to the goals of those focused on short-term gains who trade on momentum, rumor or inside information.

One aspect of our research process includes contacting a company’s management, its vendors and competitors, industry experts, etc., in an effort to understand the company and its position within its respective industry, as well as current trends. Professional networks are one tool we can use to help facilitate these discussions and FPA has on occasion used them. The professional networks we used have been nationally recognized firms that have supplied us with their internal compliance procedures designed to avoid conflicts of interest and deliver only publicly available information or personal insight. As noted above, FPA policies strictly forbid acting on material nonpublic or “inside” information, and we never use these networks, or any other research tool, with the intention to receive or use “inside” information. Moreover, were these networks to inadvertently provide us with “inside” information, our policies would prohibit us from trading on that information. We note that recent regulatory enforcement actions have in some cases been premised on interpretations of what constitutes “inside” information that may go beyond that term’s historically accepted meaning, and we will continue to closely monitor developments in that area.

At FPA, we work very hard to maintain our personal and professional integrity. We believe we have a responsibility to openly communicate our position in response to industry scandals; no different than our commentary “Comments on Mutual Fund Transgressions” in response to market timing of mutual funds several years ago. Individual investors and firms like FPA that play by the rules will continue to be harmed if those who try to gain an advantage by using illegal inside information are not prosecuted and convicted for their unethical activities. We remain available to further discuss any concerns you may have regarding this or any other aspect of our investment process.