

A full market cycle can be defined as a peak-to-peak period that contains a price decline of at least 20% over at least a two-month period from the previous market peak, followed by a rebound that establishes a new, higher peak.¹ Few publications or data providers publish, let alone highlight, full market cycle returns, yet we believe understanding them can help the return of your portfolio over the long-term.

Warren Buffett, in Berkshire Hathaway's 2013 Chairman's Letter, wrote "Over the stock market cycle between year ends 2007 and 2013, we overperformed the S&P. Through full cycles in future years, we expect to do that again. If we fail to do so, we will not have earned our pay. After all, you could always own an index fund and be assured of S&P results."²

Because Berkshire Hathaway's book value compounded better than the S&P 500 over this time, it doesn't matter that Mr. Buffett underperformed in 4 of the 7 years (after 2014, now 5 in 8 years). And yet, Mr. Buffett's shareholders are still ahead of the S&P since 2007.³ This supports our view that it is relevant to have a portfolio manager do well over time rather than at a moment in time.

Some managers may perform well in a bull market, while others may outperform in a bear market. FPA aspires to manage successfully throughout entire market cycles. Thoughtfully analyzing performance is an important aspect of choosing a fund manager with whom to entrust your capital. Selecting a manager by using too short of a period or one that only includes a discrete type of market (bull or bear) may be misleading – and costly – over the long-term as undue consideration to short-term performance is unlikely to accrue to your financial benefit.

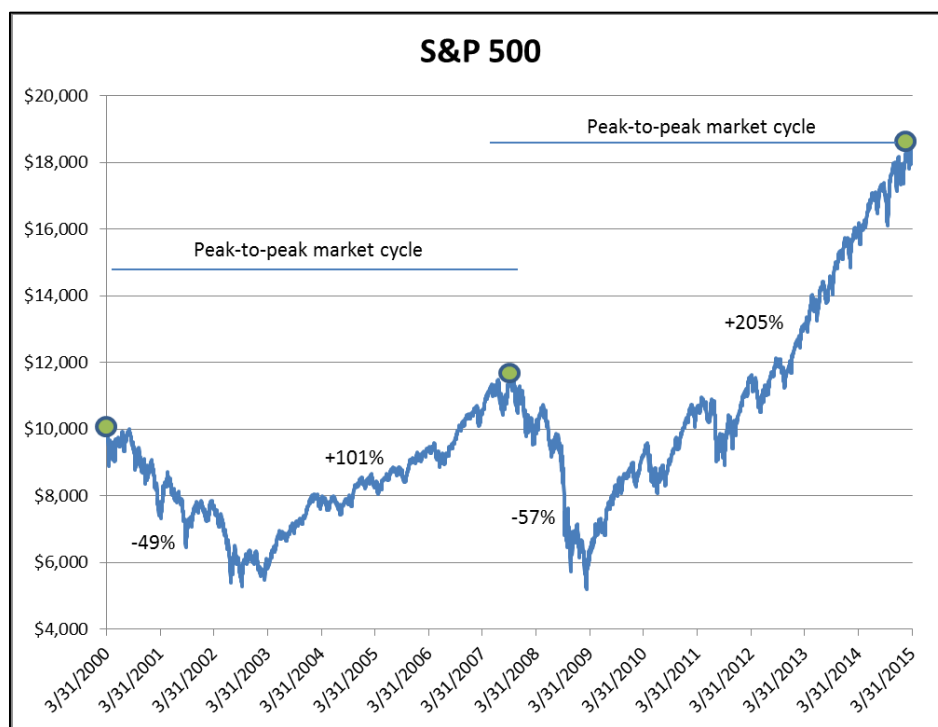
Many portfolio managers with strong trailing three- and five-year performances in 2000 and 2007 saw their records (and, more importantly, their clients' capital) decimated by subsequent bear markets. There are other portfolio managers, however, who successfully protect principal in a weak environment yet fail to adequately commit capital when markets are inexpensive, leaving their clients with a sub-par return over the full cycle.

If you are a long-term investor, what happens in between market peaks may be nothing more than noise. Consider both the current market cycle (2007— to the most recent quarter-end peak), as well as the preceding market cycle (2000—2007) for the S&P 500 in the chart on the following page. If you owned shares in good businesses or invested with capable managers, you were better off covering your ears (and sometimes eyes) through the volatility between the green dots.

¹ Vanguard, *Bear Market Survival Guide* (2001). "A bear market is Wall Street jargon for a sharp decline in prices. There's no official definition, but a bear market for stocks generally is defined as a decline of 20% or more in broad market indexes over at least a two-month period. (A bull market refers to a prolonged period of rising prices.)" Most peak-to-peak market cycles include economic recessions and periods of high stock return dispersion. See Petajisto, Antti. 2013. "Active Share and Mutual Fund Performance" *Financial Analysts Journal*, vol. 69, no. 4 (July/August): 73-93.

² <http://berkshirehathaway.com/2013ar/2013ar.pdf>

³ <http://berkshirehathaway.com/2014ar/2014ar.pdf>



Source: Morningstar Direct

Past performance is no guarantee of future results and the index performance is not representative of the FPA Funds.

We encourage investors to examine performance over full market cycles that include both bull and bear markets, and suggest they study not only total but risk-adjusted⁴ returns as well. We include on the first page of our mutual fund fact sheets how our equity and equity-like funds have performed on an annualized basis against their relevant benchmark indexes during the current and previous full market cycles.⁵

Human nature is to gravitate towards those managers who have recently outperformed. This trait pushed some into Internet managers at the beginning of 1999 and others into short-biased managers at the beginning of 2009, both ill-fated decisions. And as it has in the past, it might again keep some from investing with those committed to delivering returns over complete market cycles.

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⁴ In our view, risk-adjusted returns are not just volatility or max drawdown related statistics but also how much and the type of capital that was at risk in order to generate a given level of return. For example, if two strategies that invest in the same types of stocks have identical performance over a full market cycle but one had 75% of its capital at risk, on average, and the other was consistently leveraged (e.g. 120% long), the former most likely had better risk-adjusted performance, based on how we evaluate risk.

⁵ The last quarter-end high is used in the case of an ongoing market cycle as the peak has not yet been established. This may result in a materially different comparison upon cycle completion. Market cycle performance is not included on the FPA Paramount fact sheet because its investment universe and benchmark index changed since 2007, on the FPA International Value fact sheet because its inception date is in 2011 and on the FPA New Income fact sheet because it is a fixed-income fund and fixed-income funds have different market cycles (interest rate and credit).

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You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies, sales charges, and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the fund literature tab on this website, by email at crm@fpafunds.com, toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.

Investments in mutual funds carry risks and investors may lose principal value. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Certain funds may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; this may be enhanced when investing in emerging markets. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds. Short-selling involves increased risks and transactions costs. You risk paying more for a security than you received from its sale.

The return of principal in a bond investment is not guaranteed. Bonds have issuer, interest rate, inflation and credit risks. Lower rated bonds, callable bonds and other types of debt obligations involve greater risks than higher rated bonds. Mortgage securities and collateralized mortgage obligations (CMOs) are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; such derivatives may increase volatility. Certain funds may purchase high yield securities, senior loans, private placements, or restricted securities that may carry liquidity risks. A fund may experience increased costs, losses and delays in liquidating underlying securities should the seller of a repurchase agreement declare bankruptcy or default.

A non-diversified fund may hold fewer securities than a diversified fund because it is permitted to invest a greater percentage of its assets in a smaller number of securities. Holding fewer securities increases the risk that the value of the fund could go down because of the poor performance of a single investment.

Please consult your tax advisor regarding higher capital gains distributions due to a change in portfolio strategy.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

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