Introduction

The FPA Flexible Fixed Income strategy (“Strategy”) (including FPA Flexible Fixed Income Fund (“Fund”)) will adhere to the principles of the FPA Absolute Fixed Income strategy, started in July 1984, which seeks to deliver long-term excess real return with less volatility than the overall bond market. To that end, the Strategy aims to generate (a) a positive total return on a rolling three-year basis, and (b) a total return in excess of CPI + 200 basis points on a rolling five-year basis. This total return strategy seeks to achieve these goals through combination of income and price appreciation with an emphasis on long-term capital preservation.

Investment Philosophy

The Strategy is not a relative value strategy. Success or failure will not be measured relative to the performance of an index or a peer group, since losing less money than an index is still a loss. Moreover, we will not buy a bond hoping that a decrease in the bond’s spread or a decrease in interest rates will lead to price appreciation. Rather, our measure of value when investing in bonds will be whether a bond’s expected future cash flows adequately compensate us for taking on credit risk and duration risk on an absolute total return basis.

Fixed income is an episodic asset class that moves between extremes, with periods of high yield and low risk and periods of low yield and high risk. The Strategy has a flexible mandate that allows it to take advantage of the high-yield/low-risk environments while seeking to preserve capital during low-yield/high-risk environments. During the low-yield/high-risk environments, we will not reach for yield. Rather, in such periods, we will employ a disciplined investment process that focuses on capital preservation to seek to preserve investors’ buying power on a real basis until high-yield/low-risk periods return. At all times, we will seek to avoid uncompensated risks, including the risk of permanent impairment of capital.

To accomplish these goals, we adhere to the following principles:

- **Absolute Return:** We are absolute return investors. Each investment must meet our strict criteria, not just offer opportunity relative to other alternatives.
- **Flexible Mandate:** We do not bind ourselves to any one benchmark or index. Moreover, we do not have limitations on the types and duration of fixed income assets we may buy. This allows us to avoid being forced to buy parts of the market that are too expensive and allows us to own more of the market that is attractively priced. In the absence of attractive investment opportunities, we hold cash. This flexibility is key to our ability to preserve capital and achieve our long-term objectives.
- **Long-term Focus:** Our investment time horizon is usually three to five years. We are not speculators who hope to profit from short-term market movements. Because we have a multiyear view, we have no problem waiting. We are patient, researching then waiting for the right price. Once we invest, we are buy-and-hold investors who expect to hold our investments to maturity unless fundamental valuation parameters change. Markets can remain irrational or expensive for long periods of time. Thus, periodically our performance may be disappointing and those periods could be long. We are willing to accept short-term underperformance because we are focused on long-term results.
- **Alignment of Interest:** We invest alongside our investors as partners in our process. As managers, we have significant amounts of our own capital invested in our strategy. We are not just managing “your” money; we are managing “our” money and we act and speak accordingly.

- **Strict Risk/Reward Parameters:** Risk of permanent loss is a critical element in our thinking. We adhere to a strict investment discipline, and so each investment must compensate for its unique risks while offering a margin of safety.
- **Independent Decision Making:** We do not follow the crowd. We do our own research and we are independent in our decision-making. As a result, we are sometimes viewed as contrarian in our strategy and execution.
- **Integrity:** We will invest and act ethically and with integrity. We are equally long-term-focused in how we interact with borrowers, counterparties and our investors. We would rather have our co-investors leave us disappointed in our performance because we stuck to our discipline rather than leave us disappointed in our performance because we didn't stick to our discipline.

Process

Our process requires discipline, patience, intellectual rigor and a long-term view. We seek to invest in individual securities that adequately compensate us for the potential risk of permanent capital loss and that meet the objectives described above. We build our portfolio by starting with 100% cash, then add individual investments that meet our risk/reward criteria. As a result, cash is the residual of our investment process. Our investment flexibility allows us to invest only where we see value.

We approach the research process by recognizing that a bond (or any other type of fixed income investment) is a claim backed by an asset such as a business, real estate, etc. Not unlike an equity investment, the value of a bond depends on the value of the underlying asset. Our research process is focused on valuing those assets and then understanding the value of our claim on those assets.

Importantly, bonds have an asymmetric return profile, since they do not fully participate in changes in the underlying asset's value. A bond may only partially participate in increases in the underlying asset value, with a bond's potential value capped at par when held to maturity. On the other hand, a bond may fully participate in decreases in asset value, with the potential for the bond to be worth zero. Due to the asymmetry in a bond's future value, we invest in bonds by preparing for the worst and hoping for the best. Since bonds have limited upside potential, our research process focuses on understanding the downside – identifying the myriad of ways in which a bond could lose value. This process applies when ascertaining both credit risk and duration risk.

Credit risk is the risk of permanent loss of capital. We enjoy investing in bonds because we like having the ability to demand our money back. Our investment process focuses on understanding whether the borrower has the willingness and ability to pay us back the money we are owed. To do so, we determine an investment's loan-to-value – the ratio of the effective purchase price versus the value of the assets that will be the source of repayment. When assessing the creditworthiness of borrowers, we research the value of the borrower's assets and the borrower's ability to generate cash flow, including anything that might impact asset value or the ability to generate cash flow such as secular trends; customer, competitor and supplier dynamics; and the regulatory environment. We try to understand the short thesis and whether these businesses should exist or whether these assets should have value. Our long-term view applies not just to returns and prices of bonds but also to prices of assets: we don't think about loan-to-value based on today's values; rather, we think about value over a longer arc of time. Finally, we also research the borrower's capital structure to understand how our claim on the borrower's asset value and cash flow can be reduced or impeded.

Duration risk is the risk of near-term price movements caused by changes in yield as a result of changes in Treasury rates or credit spreads. Consistent with our goal of low-volatility returns, we seek to buy bonds at prices that provide insulation from near-term movements in yields.

In applying our investment process to fixed income, we divide the bond market into two segments which helps to focus our research efforts based on the salient risk:

- **Credit-Sensitive** - (Securities rated BBB+ and below). Price in credit-sensitive bonds is primarily linked to the credit quality of the issuer and the issuer's willingness and ability to meet its contractual interest and principal payments. As such, though we evaluate duration risk, we focus our research on understanding credit risk.
- **High- Quality** - (Securities rated A- and above). Price in high-quality bonds is closely linked to macroeconomic factors such as the level of interest rates and inflation, as well as economic cycles and monetary and fiscal policy. Nevertheless, though duration is a primary driver of returns (both near term and long term), we do not ignore credit risk. Our investment process seeks to identify high-quality bonds that meet our absolute return criteria of compensating us for the risk of permanent capital loss while also providing limited exposure to near-term price movements caused by macroeconomic factors.

Finally, we ask ourselves whether the price of the bond is attractive on an absolute return basis, relative to the risk of permanent loss of capital, relative to duration risk and relative to inflation. We will only invest when we can buy at an attractive price that we believe compensates for the risks.

Once we make an investment, we invest knowing that we will likely never bottom-tick the market. Recognizing that the price could go lower gives us the freedom to buy when the price is right. If the price gets more right (i.e., prices fall), we will consider buying more.

Portfolio Construction

The portfolio holdings, sector exposure, duration and yield are the cumulative result of the individual, bond-specific investment decisions made consistent with the process described above.

Our strategy guidelines allow a maximum of 75% of the portfolio to be invested in Credit-Sensitive investments. The actual exposure to Credit-Sensitive investments will be based on the availability of attractively-priced investment opportunities. When opportunities are plentiful, we expect to have a larger exposure to Credit-Sensitive investments and when there is a lack of opportunities we expect the exposure to Credit-Sensitive investments will be smaller. At a minimum, the portfolio must maintain at least 25% of its net assets in a combination of High Quality investments and cash and equivalents. The actual exposure will be a residual of the Credit-Sensitive investment process.

Finally, the cash and equivalents in the portfolio will be the residual of the overall investment process. We expect that cash and equivalents will increase in expensive markets and decrease in cheap markets. Notwithstanding the foregoing, we expect to maintain a minimum amount of cash and equivalents for liquidity purposes.

Portfolio Review

We monitor each investment in the portfolio to ensure that its fundamental performance is consistent with our investment thesis. We buy when we believe the absolute return compensates us for the various risks we see and we sell if we are offered a compelling price or if our thesis is wrong (and we will get some wrong; our goal is to minimize that through consistent application of our process). As interest rates and spreads change, we review each holding to ensure that it continues to offer us adequate compensation for credit risk and duration risk. To the extent that an investment's fundamental performance is inconsistent with our expectations and/or an investment no longer offers us adequate returns for the credit risk or duration risk we are taking, we will seek to reduce or eliminate our exposure to that investment. This dynamic process and constant review allows us to maintain holdings that we believe meet or exceed our expectations and eliminate those that do not.

Conclusion

We are absolute value investors. Value investing is the best way we know to deliver what we believe to be compelling long-term returns and manage risk. We can sleep at night without worrying about market movements, headlines or what other investors are doing. We don't have to spend time trying to guess where the crowd will go. Instead, we invest with confidence with the view that we can ultimately get our money back and we expect to compound capital at an attractive return over a multi-year period along the way. In summary, our approach may be succinctly characterized as "winning by not losing".

Finally, we strive for transparency and thus we will consistently communicate with our fellow investors. The more we communicate and the more transparent we are, the less discrepancy there will be between our expectations and yours.

Important Disclosures

This document is for informational and discussion purposes only and does not constitute, and should not be construed as, an offer or solicitation for the purchase or sale with respect to any securities, strategies, products or services discussed, and neither does it provide investment advice. This document does not constitute an investment management agreement or offering circular.

No investment decisions should be based in any manner on the information and opinions set forth in this document. You should verify all claims, do your own due diligence, and/or seek advice from your own professional advisor(s) and consider the investment objectives and risks and your own needs and goals before investing in any securities or strategies mentioned. An investment in any security or strategy mentioned does not guarantee a positive return as investments of any type are subject to market risks, including the potential loss of principal.

In relation to the FPA Flexible Fixed Income Fund ("Fund"), 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 and other matters of interest to the prospective investor. Please read the Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpa.com, by calling toll-free at 1-800-982-4372, or by contacting the Fund in writing.

The views expressed herein and any forward-looking statements are as of the date of the publication and are those of the portfolio management team. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. FPA cannot assure future results and disclaims any obligation to update or alter any statistical data and/or references thereto, as well as any forward-looking statements, whether as a result of new information, future events, or otherwise. Such statements may or may not be accurate over the long-term. This information and data has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

Portfolio composition will change due to ongoing management of the Strategy/Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Strategy/Fund, First Pacific Advisors, LP ("FPA"), the portfolio managers, or the distributor (as applicable). It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings for the Fund as of the most recent quarter-end may be obtained at www.fpa.com.

Investments, including investments in mutual funds, carry risks and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Strategy/Fund may purchase foreign securities, which are subject to interest rate, currency exchange rate, economic and political risks. The securities of smaller, less well-known companies can be more volatile than those of larger companies. Private placement securities could be more difficult to sell or may be able to sell such securities only at prices lower than if such securities were more widely held. Short-selling involves increased risks and transaction costs. You risk paying more for a security than you received from its sale.

The return of principal in a bond fund is not guaranteed. Bond funds/strategies have the same issuer, interest rate, inflation and credit risks that are associated with underlying bonds owned by the Strategy/Fund. Lower rated bonds, convertible securities and other types of debt obligations involve greater risks than higher rated bonds. Interest rate risk is when interest rates go up, the value of fixed income securities, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principle due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults the security may lose some or all its value.

Mortgage securities (including mortgage-backed securities), asset-backed 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. Convertible securities are generally not investment grade and are subject to greater credit risk than higher-rated investments. High yield securities can be volatile and subject to much higher instances of default. The Fund/Strategy may experience increased costs, losses and delays in liquidating underlying securities should the seller of a repurchase agreement declare bankruptcy or default.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

As with any investment, there is always the potential for gain, as well as the possibility of loss. Past performance is no guarantee, nor is it indicative, of future results.

Index / Benchmark Definitions

The Consumer Price Index (CPI) is an unmanaged index representing the rate of the inflation of U.S. consumer prices as determined by the U.S. Department of Labor Statistics. The CPI is presented to illustrate the Strategy/Fund's purchasing power against changes in the prices of goods as opposed to a benchmark, which is used to compare the Strategy/Fund's performance. There can be no guarantee that the CPI will reflect the exact level of inflation at any given time. CPI + 200 is a measure of the consumer price index (CPI) plus an additional 200 basis points annually.

Comparison to an index is for illustrative purposes only. Indices are unmanaged. Index returns do not reflect transactions costs, investment management fees or other commissions, fees and expenses that would reduce performance for an investor. The Strategy/Fund does not include outperformance of any index or benchmark in its investment objectives. Investors cannot invest directly in an index.

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