FPA Capital Fund, Inc.
Fourth Quarter 2018 Commentary

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, 1-800-982-4372, or by contacting the Fund in writing.

Average Annual Total Returns (%)

As of Date: 12/31/18	Since 8/1/84*	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTR
FPA Capital Fund ("Fund")	11.94	6.81	4.12	7.39	-4.72	-1.33	-17.61	-17.61	-18.65
Russell 2500	11.21	8.52	8.23	13.15	5.15	7.32	-10.00	-10.00	-18.49

Periods greater than one year are annualized. Fund performance is shown net of all fees and expenses. Fund performance is calculated on a total return basis which includes reinvestment of all distributions. Fund performance does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares, which would lower these returns. Comparison to any index is for illustrative purposes only. An investor cannot invest directly in an index. The Fund does not include outperformance of any index or benchmark in its investment objectives.

* Inception date was July 11, 1984. A benchmark comparison is not available based on the Fund's inception date; therefore, data from August 1, 1984 is presented.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. The Fund's expense ratio as of its most recent prospectus is 0.83%. Current month-end performance data, which may be lower or higher than the performance data quoted, may be obtained at www.fpa.com or by calling toll-free, 1-800-982-4372.

Mr. Ahitov was named sole portfolio manager of the Fund effective October 1, 2017. Dennis Bryan and Arik Ahitov had been co-portfolio managers since November 2007 and February 2014, respectively, and managed the Fund in a manner that is substantially similar to the prior portfolio manager, Robert Rodriguez. Mr. Rodriguez ceased serving as the Fund's portfolio manager effective December 2010.

Please see important disclosures at the end of the commentary.

The FPA Capital Fund, Inc. ("Fund") was down -18.65% (net) in the fourth quarter of 2018 vs. Russell 2500's performance of -18.49%. We have previously discussed how expensive valuations have become and warned that this level of what we called "overvaluation", was not sustainable. It seems that the market finally arrived to our conclusion – the Russell 2500 hit its lowest level in over 25 months on December 24, 2018.

We have discussed in our prior commentaries our belief that the portfolio is cheap as compared to the Russell 2500 index.

As of 12/31/2018, the Fund's portfolio's earnings multiple is 43% lower than that of the Russell 2500 Index and its price-to-book is 33% lower.[1]

Portfolio transition:

The portfolio transition we have discussed in our past four letters is finally behind us with the exception of our energy-related equities. As a reminder, when I became the sole portfolio manager, I committed to the following: re-underwrite all the old positions and assess whether they still belong in our portfolio; be more nimble with increased attention to adjusting position sizing when there are changes in our analysis and/or the risk/reward profile; and increase the quality[2] of the portfolio positions.

When the third quarter 2017 started, there were 22 positions in the portfolio. I took ownership of the portfolio at the beginning of fourth quarter 2017. Today, there are 24 positions in the portfolio but the makeup of the portfolio is very different. In the past five quarters, we initiated 17 new positions, six of which we subsequently sold. We also eliminated 12 positions, two of which we subsequently rebought. (See the Table 1 below for detail.)

Table 1: Portfolio Transition – October 1, 2017 through December 31, 2018[3]

New Position	Eliminated	Bought and Sold	Sold and Bought
Ambarella	ARRIS International	Matson	Arrow Electronics
Capitol Federal Financial	Cubic	Tenneco	Dana
Cision	Federated Investors	Undisclosed (4)	
Carter's	Foot Locker		
First Hawaiian	Houghton Mifflin Harcourt		
Gentex	Helmerich and Payne		
Graphic Packaging	Spirit Airlines		
Investors Bancorp	Veeco Instruments		
Rowan Companies	Federated Investors		
Undisclosed (2)	Undisclosed (1)		

[1] As of 12/31/2018, the Fund's earnings multiple was 12.9x and price-to-book was 1.4x. As of 12/31/2018, the Russell 2500 Index earnings multiple was 22.5x and price-to-book was 2.1x.

[2] In general, a company's quality score reflects our historic investment framework (e.g., market leadership, history of profitability, solid balance sheets, and strong management teams) as well as projected growth rates and industry-related aspects such as competitive strengths and weaknesses.

[3] Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, FPA, or the distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

In our opinion, the resulting portfolio holds higher quality businesses. High quality can come in a variety of forms, such as a strong market position, pricing power, or a unique business model that we believe can translate into a high return on capital over a market cycle.[4] We have been more vigilant and disciplined about exiting what we believe to be lower quality businesses once their valuations improve beyond a zone we view as undervalued. As such, you can expect us to trim our lower quality energy holdings once prices normalize (again, market conditions permitting). That does not mean that we will not occasionally take positions in lower quality businesses when they become undervalued relative to our estimates on fair value (e.g., some energy names following the Great Recession, or where they are trading today).

Why do we still own energy-related equities?

Energy accounted for more than 60% of our negative performance during the quarter despite constituting less than a quarter of our portfolio. The rest of the portfolio's performance was negative -8.95% (gross) - better than that of the Russell 2500.[5] Let us discuss why we continue to believe that these investments offer upside potential.

As of the end of 2018, the portfolio's allocation to energy investments stood at 23.6% vs. the Russell 2500 Index weighting of 3.2%. Given the size of this over-allocation, and in light of what has been a sharp downturn in both oil prices and related equities, we wanted to dedicate a portion of this letter to explain the underlying reasons why we continue to hold a large exposure and how this ties in with our value-oriented investing process.

Marginal Cost of Production

Investing in any commodity driven business requires a view on the marginal cost of production, which by definition is the incremental cost to produce one additional unit of something. In the oil market, we have to question what it costs to produce the last, most expensive barrel globally and how does that stack up to the current commodity price environment?

While lacking an industry standard[6] calculation, there are a number of industry estimates on what this cost curve looks like. In general, these estimates, combined with objective evidence (e.g., changes in global capex and rig counts, producer returns and cash burn, bankruptcies, etc.) suggest that the global value chain may experience severe stress at certain low prices, while much higher prices may lead to an unsustainable surge in production. The charts below show the relationship between U.S. crude production (U.S. producers are lower on the global cost curve) and WTI[7] prices as well as the relationship between WTI prices and profit margins at the largest U.S. shale producers. Notice that $50/barrel WTI tends to mark when production slows/declines and when net profit margins turn negative.

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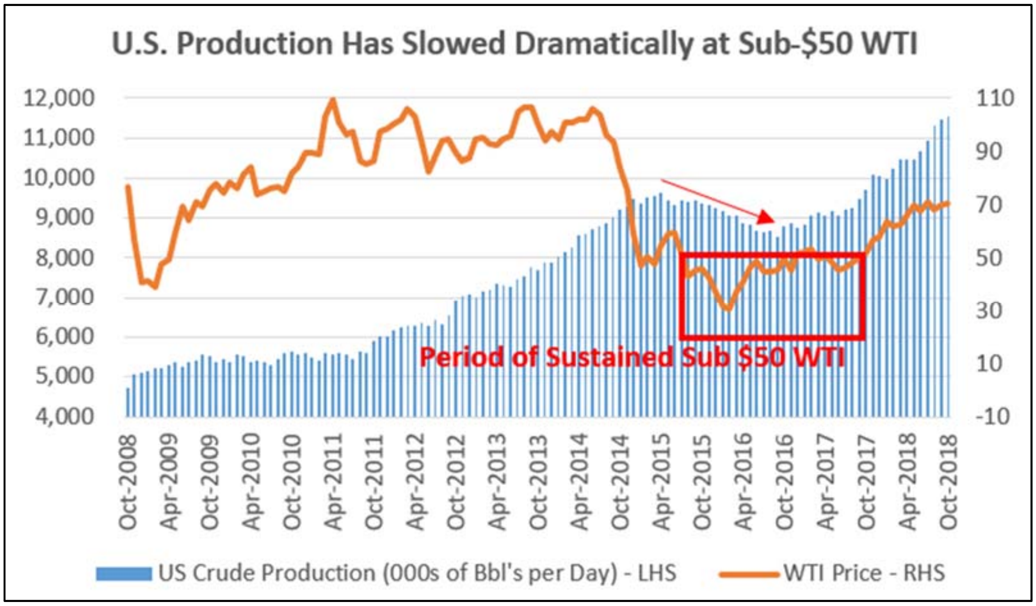
[4] Market Cycle is defined as a peak-to-peak period that contains a price decline of at least 20% over at least a two month period from the previous market peak, followed by a rebound that establishes a new, higher peak. Additional discussion can be found at https://fpa.com/docs/default-source/default-document-library/2015-04-29-market-cycle-performance-final.pdf?sfvrsn=2.

[5] Comparison to the Russell 2500 index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index. **Past performance is no guarantee, nor is it indicative, of future results.** Please see the Important Disclosures at the end of this Commentary.

[6] To calculate marginal cost of production, some estimates assume production costs only, some also include the costs of purchasing and developing the acreage, and some may also include the corporate overhead.

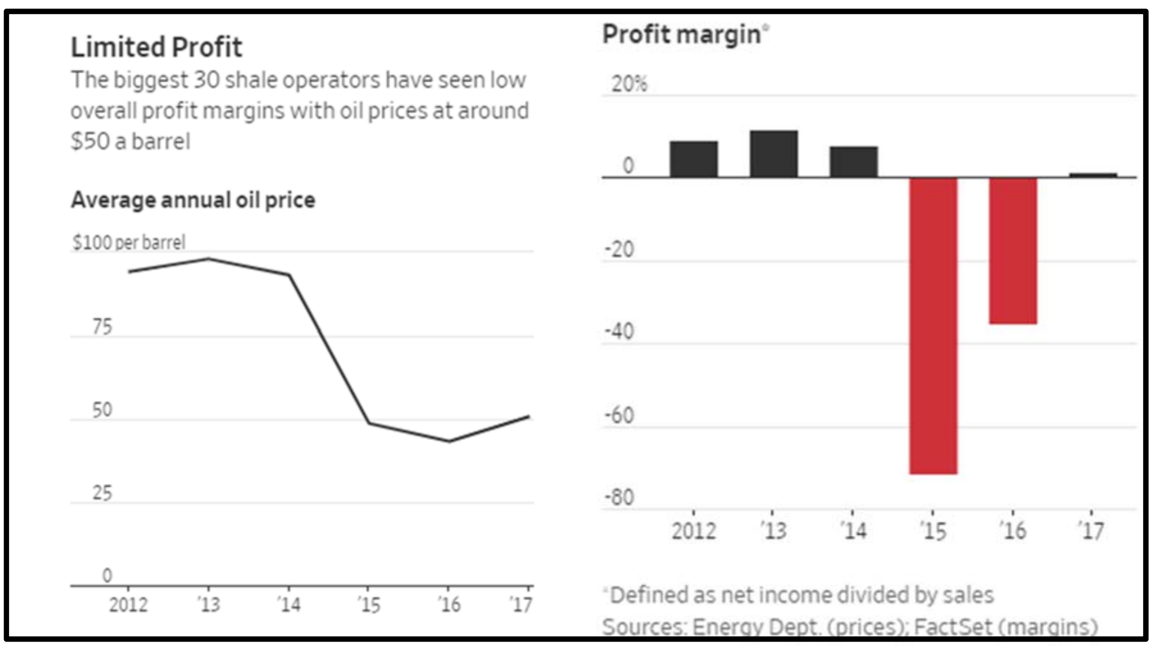
[7] West Texas Intermediate (WTI) - crude oil is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.

Chart 1: U.S. Production Tends to Slow Dramatically at Prices Below $50 WTI



Source: U.S. Energy Information Administration

Chart 2: U.S. Shale Producers Tend to Lose Money Below $50 WTI



Source: Wall Street Journal, Big Fracking Profits at $50 a Barrel? Don't Bet on It. Dec-4-2018

When the producer with the highest cost burden experiences stress, their production ultimately declines, thus requiring someone else to replace it in an environment of growing demand. Most of the macro work that helps inform our detailed company analysis revolves around the key producers driving global supply growth and their respective marginal cost of production. Understanding their marginal cost of production helps us frame a margin of safety. Since the 2014 oil price downturn, the primary incremental producers have been the U.S. (via shale growth) and OPEC. One has trouble growing at <$50 oil prices and the other seemingly wants much higher oil prices than where we are at today.

U.S. shale producers have had trouble producing profits at $50/barrel and plowback ratios[8] have been declining as investors have pushed back on companies that cannot grow without reliance on external capital.[9] At the same time, we have also talked about OPEC (most importantly, Saudi Arabia) getting closer to its spare capacity limit and also needing higher oil prices to stem bleeding budget deficits and to support social welfare projects. These factors have translated to a concerted effort to reduce global inventories (and increase prices) since late 2016. The global inventory decline went off track this fall as President Trump convinced OPEC into ramping production under the impression that the U.S. sanctions would dramatically reduce Iranian oil exports (however, the U.S. issued last minute waivers to all major importers of Iranian oil). However, it seems OPEC and Russia are in the process of making an adequate adjustment by taking 1.2 million barrels per day off the market starting in January (note that Bloomberg reported that OPEC already cut just over 500k barrels per day in December[10]). We believe Saudi Arabia is targeting inventory levels corresponding with $80+ oil prices (they need ~$90/barrel to balance their budget).

Stock Selection, Valuation, and Allocation Decisions

Our individual energy equity holdings are selected primarily for asset quality (e.g., well productivity, future inventory, etc.), management teams that have a track-record of creating value from these assets, and balance sheets that we believe can weather severe down cycles. Of course, we also want to own businesses with these characteristics at prices well below intrinsic value.

We evaluate the intrinsic value of the Fund's Exploration & Production ("E&P") companies both via near term cash flow and via long-term cash flows discounted back to the present value less liabilities (net asset value). While there are a number of assumptions that drive these models (e.g., production growth, cost structure, required investment, etc.), none is more important than the commodity price inputs. This then ties back to our earlier discussion about the marginal cost of production. If U.S. shale is a key incremental growth driver, on the lower end of the global cost curve, and experiences negative production growth at less than $40/barrel, then intuitively, we think it makes sense to model long-term downside at $40/barrel. Conversely, there must be a long-term price ceiling that will inevitably push supply above global demand. Unfortunately, the ceiling price seems less clear than the floor price and this informs our conservatism surrounding the price deck used in determining E&P companies best-case intrinsic value. In other words, we are not recklessly gunning for $80+ oil prices discounted in perpetuity.

Our E&P company models allow us to estimate what price of oil (as well as gas and natural gas liquids) is reflected in the current stock price at conservative cash flow multiples. We have talked at length about the fact that our E&P equities have recently reflected a large price discount relative to the underlying commodity price (both spot and forward prices) and that such discounts have historically closed over time. The Fund's current allocation to E&P companies is near its maximum allocation range and this is because we estimate that current stock prices are reflecting future oil prices close to or even below $40/barrel in perpetuity – prices we view as completely unsustainable. On the flip side, we have discussed our systematic trimming activity in prior quarters as the Fund's E&P stocks began to drift towards the higher end of what we assumed was the long-run sustainable oil price range at that time.

The Fund also owns three oil field service ("OFS") investments – all of which have different business models and require different methods to assess normalized intrinsic value. While the price of oil dictates the level of demand for oil field services, there isn't a good way to precisely tie the oil price to each company's valuation. Instead, companies that the Fund holds, such as Patterson-UTI Energy ("PTEN") and Rowan Companies ("RDC"), provide useful public disclosures relating to their historical utilization rates and unit economics of their assets (i.e., PTEN with their onshore drilling rigs and pressure pumping fleets; RDC with their offshore drill-ships and jack-up rigs). We can use these disclosures, in combination with a constantly updated view of the current cycle, to apply what we believe is a reasonable set of assumptions on mid-cycle utilization rates, unit revenue, and unit costs in order to reach an estimate on normalized intrinsic

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[8] Plowback ratio is defined as capital expenditures divided by operating cash flow.

[9] Per Barclays Research (Oil Special Report, Sep-4-2018), plowback ratios for E&P coverage have declined from 140% in 2012 to 108% in the first half of 2018.

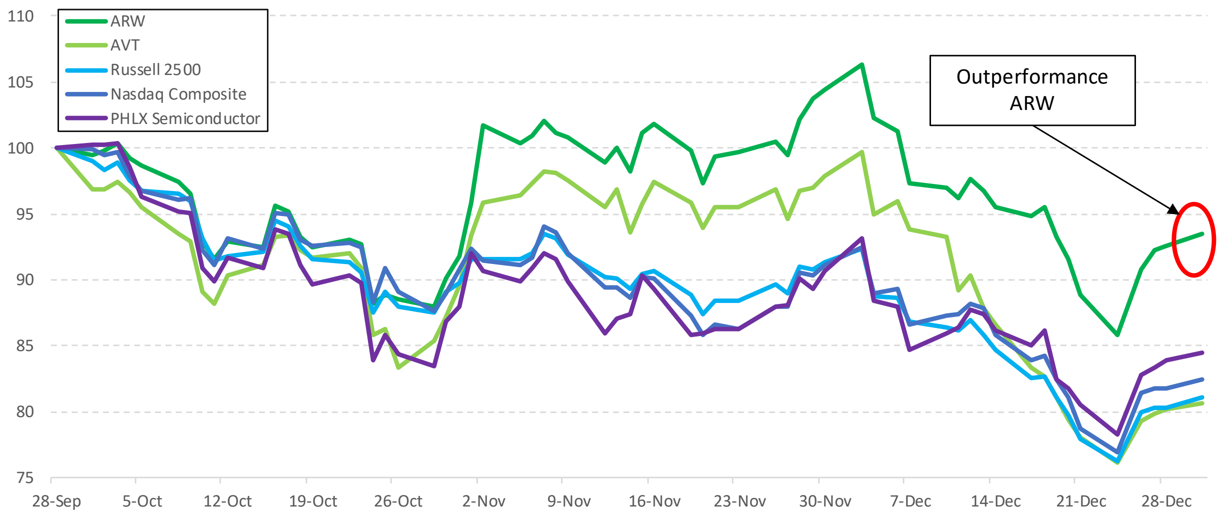
[10] https://www.bloomberg.com/news/articles/2019-01-02/opec-output-falls-most-in-almost-two-years-as-saudis-begin-cuts

value. Interestingly, our modeling currently suggests PTEN's stock price is ascribing roughly zero value for their pressure pumping business (despite $315mm of TTM segment EBITDA)[11] and onshore drilling unit economics that are roughly in line with the most recent quarter. In our view, these kind of implied fundamentals also seem unsustainable, which is why PTEN is our largest OFS investment.

A source of relative outperformance in the fourth quarter: Arrow

Given the relatively choppy markets this past quarter, particularly for technology stocks, we wanted to review a few of our technology investments that we consider relative safe havens. As shown below in Chart 1, one of the Fund's technology distributors, Arrow Electronics, Inc. ("ARW" or "Arrow"), performed well relative to the broader market and to relevant technology indexes during the 4Q 2018.

Chart 1: Performance Comparison of Distributors to Relevant Indexes during the 4Q 2018[12]



Source: CapIQ; Russell 2500 - The Russell 2500 Index is a broad index, featuring 2,500 stocks that cover the small- and mid-cap market capitalization; Nasdaq Composite Index - The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange; PHLX Semiconductor – The Philadelphia Semiconductor Index (SOX) is a capitalization-weighted index composed of 30 semiconductor companies.

And while our other technology distributor investment, Avnet, Inc. ("AVT"), only performed in line with the broader index and relevant technology indexes, we think it's too early within the current semiconductor downturn to judge its performance as these downturns have tended to last closer to 15 months and we are only on month six.

Arrow's outperformance comes as little surprise to us as one of the features that we have liked about technology distributors is their resiliency during a semiconductor downturn. As shown in Table 2, outside of the financial crisis and the dotcom bust, these stocks historically have tended to outperform during a downturn, often even posting positive gains.[13]

[11] TTM=Trailing Twelve Months; EBITDA=Earnings Before Interest, Taxes, Depreciation, and Amortization

[12] **Past performance is no guarantee, nor is it indicative, of future results.** Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, FPA, or the distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The Fund's portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com. Comparison to an index is for illustrative purposes only. Index returns do not reflect transactions costs, investment management fees or other commissions, fees and expenses that would reduce performance for an investor. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

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Table 2: Technology Distributors Performance Over Different Cycles

Cycle Start	Aug-00	Sep-01	Jul-04	Jul-05	Jul-06	Feb-08	Jul-08	Apr-09	Mar-10	Feb-12	Jul-14	Jun-16	Jun-18
Cycle End	Aug-01	Jun-04	Jun-05	Jun-06	Jan-08	Jun-08	Mar-09	Feb-10	Jan-12	Jun-14	May-16	May-18	Dec-18
Semi Cycle	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down
Absolute													
Arrow	-26%	0%	1%	19%	6%	-10%	-38%	48%	46%	46%	7%	15%	-7%
Avnet	-20%	-6%	-1%	-11%	78%	-23%	-36%	58%	26%	27%	-7%	-7%	-5%
Average	**-23%**	**-3%**	**0%**	**4%**	**42%**	**-17%**	**-37%**	**53%**	**36%**	**37%**	**0%**	**4%**	**-6%**
PHLX Semiconductor (SOX)	**-51%**	**-14%**	**-14%**	**5%**	**-19%**	**3%**	**-37%**	**47%**	**21%**	**56%**	**10%**	**97%**	**-16%**
Relative													
ARW vs SOX	25%	14%	15%	13%	25%	-13%	-1%	1%	26%	-9%	-3%	-82%	9%
AVT vs SOX	32%	8%	13%	-17%	97%	-26%	1%	11%	6%	-28%	-17%	-104%	11%
Avg vs SOX	**28%**	**11%**	**14%**	**-2%**	**61%**	**-19%**	**0%**	**6%**	**16%**	**-19%**	**-10%**	**-93%**	**10%**

Source: World Semiconductor Trade Statistics, CapIQ & FPA estimates for cycle start & end dates

Our investment thesis for both of these businesses is relatively simple. They are highly diversified, market-leading companies that have generated low double-digit returns on capital despite their relatively thin margins. We consider these returns reasonable, but not juicy enough to attract new entrants (read: Amazon) any time soon. Furthermore, we see these businesses as difficult to disrupt as they are not wedded to any particular technology and we expect continued top-line growth and margin improvement from both businesses over time. Finally, these firms tend to make large investments in working capital as they grow and can harvest these investments when their markets are shrinking producing countercyclical free cash flow. The free cash flows that may be generated during a downturn allow management to take advantage of attractive mergers and acquisitions ("M&A") opportunities or repurchase their own shares at discounted prices.

In addition to the above, we believe Avnet's management team is executing on several self-help opportunities that we think make that investment even more attractive and have sized the investment accordingly. In particular, management has embarked on a $240mm cost saving initiative that we believe is already bearing fruit and they are also working on increasing their working capital efficiency, which may ultimately free up close to $1b of additional capital.

We are not expecting straight-line, up-and-to-the-right performance out of these investments, so we intend to stay nimble and will look for opportunities to add to these positions should a broader market drawdown give us the chance to.

What opportunities are we seeing now?

With the market finally starting to weaken, value investors like ourselves are hunting for bargains in some of the more beaten down, cyclical names. We are applying a few lessons learned to our purchasing process and wanted to share those with you:

> <u>Buy when there is a debate about how bad the current downturn will be, not whether the downturn has begun</u>
>
> Once there is agreement that the current end-market downturn is underway, valuations tend to reflect this much faster than the underlying fundamentals. So while earnings estimates may continue to correct downward, often times the stocks have already seen their largest drawdowns from the peak. This isn't to say the bottom has been put in place, but it is a good place to start building your position.

Separate cyclical declines from secular declines

It's important to understand what has caused the decline in the business. We are looking for opportunities where a traditional cycle is playing out and where we think past cycles can adequately help us forecast a range of normalized earnings estimates. We are looking to avoid situations where secular pressures are changing industries, competitive dynamics, complicating our ability to estimate normalized earnings.

Just a cheap valuation isn't sufficient

The classic P/E ratio is less useful when looking at cyclicals. Cyclicals look cheap at the top of the cycle and expensive at the bottom. And yet, the optimal time to purchase a cyclical is at the bottom of a cycle. We will be looking for companies that meet our investment criteria (e.g., market leading, strong balance sheets, history of profitability, good management teams, etc.) and then will be looking at alternative methods of assessing value rather than simple ratios like a classic P/E ratio.

Space out purchases

It's easy to get excited when a stock has experienced a material drawdown from its 52-week high. But it's important to be disciplined and space out purchasing levels sufficiently to leave enough dry powder to size-up a position at the right time. This lesson is particularly relevant for cyclicals where drawdowns can often exceed what seems rational. We have established purchasing plans for all of the cyclical stocks we are interested in assuming relatively large swings are possible.

By keeping these lessons learned top of mind, we plan to continue taking advantage of future market volatility and purchase quality companies at opportunistic valuations.

Conclusion

The week before Christmas marked the worst weekly stock price performance in a decade. The US stock indices are well below their record highs. We have started using some of our liquidity to both initiate new positions and add to many of our existing ones.

The Fund has underperformed to this extent only twice before. The first time was leading up to the dotcom bust (3/1998-3/2000), and the second time was leading up to the great financial crisis (10/2005-10/2007). During both of those times, valuations were stretched. Following both of those periods, the Fund's performance rebounded.[14]

While we cannot project a specific return over the upcoming months and years, the setup looks eerily similar to us today: all-time highs in stock indices are hit, there is a sudden and sharp decrease in stock prices, the portfolio is already cheap relative to the Russell 2500 Index (price to earnings and price to book ratios are two ways to judge this) and the Fund has ample liquidity to take advantage of this dislocation (the Fund's cash level at the end of the year was 28.5%).

We are grateful for the trust you have placed in us to manage your capital, and we sincerely appreciate your support. We wish you a prosperous, healthy, and rewarding New Year!

Arik Ahitov

[14] **Past performance is no guarantee, nor is it indicative, of future results**. Historical annual returns for the Fund can be found at https://fpa.com/funds/performance/capital. Please see **Important Disclosures** for additional information.

Important Disclosures

This update 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, products or services discussed, and neither does it provide investment advice. Any such offer or solicitation shall only be made pursuant to the Fund's Prospectus, which supersedes the information contained herein in its entirety.

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. 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.

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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 Fund 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. Foreign investments, especially those of companies in emerging markets, can be riskier, less liquid, harder to value, and more volatile than investments in the United States. Adverse political and economic developments or changes in the value of foreign currency can make it more difficult for the Fund to value the securities. Differences in tax and accounting standards, difficulties in obtaining information about foreign companies, restrictions on receiving investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations, can all add to the risk and volatility of foreign investments.

Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds.

Value stocks, including those selected by the Fund's portfolio manager, are subject to the risk that their intrinsic value may never be realized by the market and that their prices may go down. Securities selected by the portfolio manager using a value strategy may never reach their intrinsic value because the market fails to recognize what the portfolio manager considers to be the true business value or because the portfolio manager 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.

Definitions

Comparison to any index is for illustrative purposes only and should not be relied upon as a fully accurate measure of comparison. The Fund will be less diversified than the indices noted herein, and may hold non-index securities or securities that are not comparable to those contained in an index. Indices will hold positions that are not within the Fund's investment strategy. Indices are unmanaged and do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

The **Russell 2500 Index** consists of the 2,500 smallest companies in the Russell 3000 total capitalization universe offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Value Index measures the performance of those Russell 2500 companies with lower price-to-book-ratios and lower forecasted growth values.

EBITA (Earnings before interest, taxes and amortization) is a financial indicator used widely as a measure of efficiency and profitability.

Margin of safety - Buying with a "margin of safety" is when a security is purchased at a discount to the portfolio manager's estimate of its intrinsic value. Buying a security with a margin of safety is designed to protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

Price/Earnings ratio (P/E) is the price of a stock divided by its earnings per share.

West Texas Intermediate (WTI) - crude oil is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.

The Fund is distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.

TICKER / CUSIP	SHARES / PRINCIPAL	SECURITY	COUPON RATE (%)	MATURITY DATE	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
		COMMON STOCKS					
AAN	157,612	AARON'S INC.			42.05	6,627,585	2.6%
AGCO	172,656	AGCO CORP.			55.67	9,611,760	3.8%
ALGT	115,357	ALLEGIANT TRAVEL CO.			100.22	11,561,079	4.6%
AMBA	164,012	AMBARELLA INC.			34.98	5,737,140	2.2%
ARW	45,360	ARROW ELECTRONICS INC.			68.95	3,127,572	1.2%
AVT	334,465	AVNET INC.			36.10	12,074,187	4.8%
CFFN	669,981	CAPITOL FEDERAL FINANCIAL			12.77	8,555,657	3.4%
CRI	48,583	CARTER S INC.			81.62	3,965,344	1.6%
XEC	196,185	CIMAREX ENERGY CO.			61.65	12,094,805	4.8%
CISN	297,901	CISION LTD.			11.70	3,485,442	1.4%
DAN	161,885	DANA INC.			13.63	2,206,493	0.9%
FHB	145,063	FIRST HAWAIIAN INC.			22.51	3,265,368	1.3%
FI	1,555,904	FRANKS INTL NV*			5.22	8,121,819	3.2%
GNTX	132,796	GENTEX CORP.			20.21	2,683,807	1.1%
GPK	515,805	GRAPHIC PACKAGING HOLDING CO.			10.64	5,488,165	2.1%
IDCC	178,376	INTERDIGITAL INC.			66.43	11,849,518	4.7%
ISBC	740,740	INVESTORS BANCORP INC.			10.40	7,703,696	3.0%
NBL	568,699	NOBLE ENERGY INC.			18.76	10,668,793	4.2%
		OTHER				10,350,151	4.1%
PTEN	946,049	PATTERSON UTI ENERGY INC.			10.35	9,791,607	3.9%
RDC	897,625	ROWAN COMPANIES PLC.			8.39	7,531,074	3.0%
SM	741,076	SM ENERGY CO.			15.48	11,471,856	4.5%
WDC	346,809	WESTERN DIGITAL CORP.			36.97	12,821,529	5.1%
		TOTAL COMMON STOCKS				**180,794,446**	**71.5%**
		U.S. GOVERNMENT AND AGENCIES					
	4,000,000	UNITED STATES TREASURY NOTES	1.500	01/31/2019	99.91	3,996,354	1.5%
	7,500,000	UNITED STATES TREASURY NOTES	1.500	02/28/2019	99.84	7,487,891	3.0%
	10,000,000	UNITED STATES TREASURY NOTES	1.625	03/31/2019	99.79	9,979,102	3.9%
	10,000,000	UNITED STATES TREASURY NOTES	1.250	04/30/2019	99.58	9,958,464	3.9%
	7,500,000	UNITED STATES TREASURY NOTES	1.500	05/31/2019	99.58	7,468,750	3.0%
	7,500,000	UNITED STATES TREASURY NOTES	1.625	06/30/2019	99.54	7,465,869	3.0%
	10,000,000	UNITED STATES TREASURY NOTES	0.750	07/15/2019	99.04	9,903,646	3.9%
	7,000,000	UNITED STATES TREASURY NOTES	1.250	08/31/2019	99.10	6,936,973	2.7%
	7,500,000	UNITED STATES TREASURY NOTES	1.750	09/30/2019	99.35	7,451,172	2.9%
		TOTAL U.S GOVERNMENT AND AGENCIES				**70,648,220**	**27.8%**
		REPURCHASE AGREEMENTS					
	2,189,000	STATE STREET BANK/FICC REPO	0.500	01/02/2019		2,189,000	0.9%
		TOTAL REPURCHASE AGREEMENTS				**2,189,000**	**0.9%**
		CASH & EQUIVALENTS				(615,006)	-0.2%
		TOTAL CASH & EQUIVALENTS				**72,222,214**	**28.5%**
		TOTAL NET ASSETS				**253,016,660**	**100.0%**
		NUMBER OF EQUITY POSITIONS				**22**	

* Indicates foreign security.

Portfolio Holding Disclosures

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 the Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpa.com, by email at crm@fpa.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. Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund 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. Securities of smaller, less well-known companies involve greater risks and they can fluctuate in price more than larger company securities. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds. You risk paying more for a security than you received from its sale.

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.

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. Mortgage securities and asset backed securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; derivatives may increase volatility. 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.

Portfolio composition will change due to ongoing management of the fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, FPA, or the distributor.

The Fund is distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.