



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 this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at [www.fpa.com](http://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: 9/30/18	Since 8/1/84*	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTR
FPA Capital	12.72	8.77	6.40	5.89	0.32	4.49	3.15	1.28	0.61
Russell 2500	11.96	10.52	10.71	12.02	11.37	16.13	16.19	10.41	4.70

Periods greater than one year are annualized. Fund performance is shown net of all fees and expenses. Performance is calculated on a total return basis which includes reinvestment of all distributions. 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 of FPA management 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 0.80%. Current month-end performance data, which may be lower or higher than the performance data quoted, may be obtained at [www.fpa.com](http://www.fpa.com) or by calling toll-free, 1-800-982-4372.**

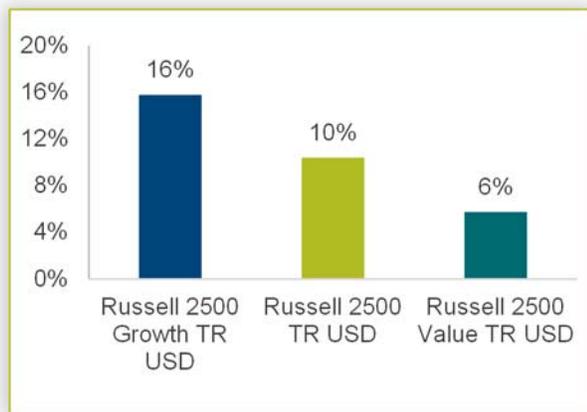
Mr. Ahitov was named sole portfolio manager effective October 1, 2017. Dennis Bryan and Arik Ahitov had been co-portfolio managers since November 2007 and February 2014, respectively, and managed the Fund in a manner that is substantially similar to the prior portfolio manager, Robert Rodriguez. Mr.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

***Please see important disclosures at the end of the commentary.***

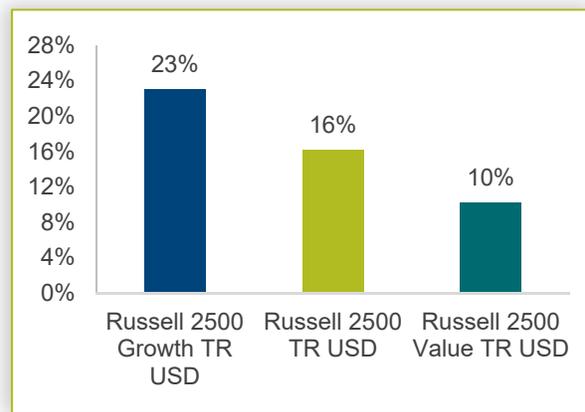
The FPA Capital Fund, Inc. (“Fund”) returned 0.61% (net) in the third quarter of 2018, 1.28% (net) calendar year-to-date and 3.15% (net) for the one year period.

As we wrote in our last quarterly letter, even though the Russell 2500 index’s calendar year-to-date performance is strong at 10.41%, most of that performance is coming from Russell 2500 Growth stocks. The Russell 2500 Value index is up only 5.75% for the calendar year-to-date period.

### YTD Performance



### 1-Year Performance



Source: Morningstar

## Our Commitment to Fellow Shareholders

September 30, 2018 marked the first anniversary of the portfolio management change initiatives we instituted. The changes we committed to were:

1. Avoid position inertia
2. Be more nimble
3. Differentiate between long-term and opportunistic investments

We are happy to announce that all the changes we set out to enact are now behind us. We have completed the restructure of the portfolio; we are being more nimble, with increased attention to adjusting position sizing when there are changes in our analysis and/or the risk/reward profile; and we have increased the quality<sup>1</sup> of the portfolio positions. The only exception is our continued elevated exposure to energy names.

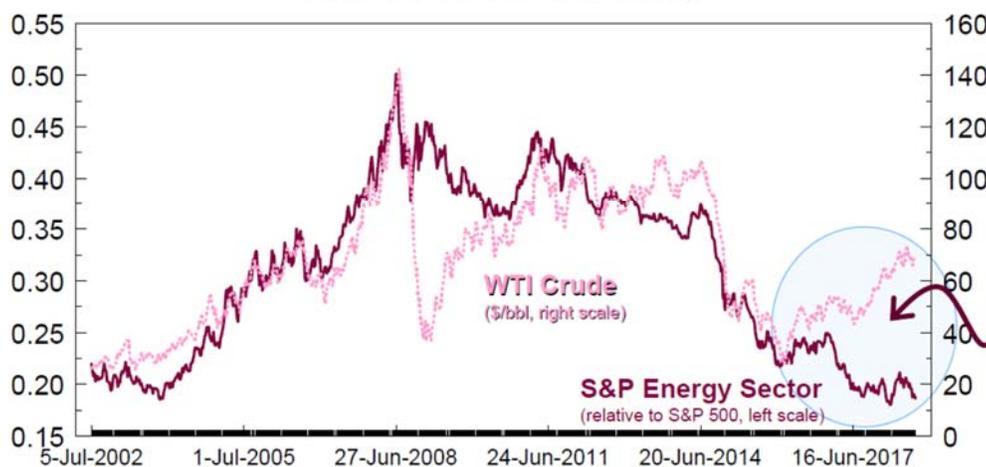
Despite crude prices increasing by 36% since the beginning of 2017 through the 3Q 2018, equity securities in the energy sector have failed to match that performance. As one would expect, the market price of oil has historically been the key driver of energy-related equity security performance, yet energy sector returns relative to the S&P 500 remain near a 15-year low despite the appreciation in oil prices. In fact, the energy sector’s relative performance is weaker than it was in 2016, when the price of West Texas Intermediate

<sup>1</sup> Please refer to the 1Q 2018 and 2Q 2018 Commentaries for more detail on the quality rankings we have implemented. 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 including industry-related aspects such as competitive strengths and weaknesses.

(WTI) crude was below \$30/barrel! We believe this disconnect offers a margin of safety that seems to be dismissed by the market.<sup>2</sup>

### Performance of the S&P Energy Sector

Relative to the S&P 500, Weekly



Source: Cornerstone Analytics as of September 27, 2018

### Contributors and Detractors<sup>3, 4</sup>

Winners	Performance Contribution	Losers	Performance Contribution
<b>Q3 2018</b>			
SM Energy Company	1.15%	Western Digital	-1.30%
Spirit Airlines	0.78%	Allegiant Travel	-0.41%
Rowan Companies	0.69%	Cimarex Energy	-0.40%
Aaron's	0.64%	Noble Energy	-0.36%
Arris International	0.31%	Veeco Instruments	-0.30%
	<b>3.57%</b>		<b>-2.77%</b>

### Western Digital Corporation (NASDAQ: WDC):<sup>3</sup>

Western Digital's stock price was down 23.73% in the third quarter of 2018 and was the largest detractor of performance for the Fund this quarter. Whenever we see such a big move, we like to take a step back and reevaluate our investment thesis. As part of that process, we seek a deep understanding of the bear case, such that we can articulate the bear case even better than the bears can – a process known as 'straw

<sup>2</sup> Cornerstone Analytics, Sept. 10, 2018.

<sup>3</sup> Reflects the top contributors and top detractors to the Fund's performance based on contribution to return for the quarter. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. A copy of the methodology used and a list of every holding's contribution to the overall Fund's performance during the quarter is available by contacting FPA at [crm@fpa.com](mailto:crm@fpa.com). It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed. **Past performance is no guarantee, nor is it indicative, of future results.** Please see **Important Disclosures** at the end of this commentary.

<sup>4</sup> 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](http://www.fpa.com).

managing'.<sup>5</sup> If we truly understand the bear case and can pose cogent arguments against its core points, we think this presents a good long-term investment opportunity. So, let us walk through the bear case as we see it:

1. Past NAND memory cycles<sup>6</sup> are a useful guide for today's environment.
2. Gross margins cratered during past down cycles and we believe they are likely to crater again.
3. Collapsing gross margins suggest falling earnings and that the stock will follow earnings lower.
4. If the stock is so cheap, why isn't the company buying back shares?

The bear case, as presented, certainly sounds compelling, and many investors have obviously subscribed to it given the stock's recent performance. But let us examine each of the arguments.

## Past NAND cycles are a useful guide for today's environment

We see several reasons to believe the current NAND cycle is different from the past. First, NAND end-markets are substantially more diversified than in the past. In 2009, nearly 80% of NAND bits went to removable products (e.g. camera flash drives).<sup>7</sup> Today, three new end-markets, Enterprise solid state drives ("SSDs"), Client SSDs, and Mobile comprise over 80% of bit demand and each represents over 20% of the total.<sup>8</sup> Today's those diversified end-markets should help limit cyclicity of the business. Second, today's products are less commodity-like than in the past. As a reminder, Western Digital is not just selling raw NAND flash, it is selling SSDs, and these products generally require more intellectual property and carry better margins. As Western Digital sits higher up in the value chain, we expect the business to perform better than a pure commodity business. Third, we believe long-term secular demand drivers are robust. Data storage is at the center of multiple megatrends (e.g., internet of things, surveillance, big data, analytics, artificial intelligence, cloud computing, etc.), and we think strong underlying demand should help rebalance any temporary supply/demand imbalance that arises. Fourth, the technology has become harder to scale, and that has placed a ceiling on potential supply growth. From 2004 to 2008, 'bits shipped' grew at nearly a 200% CAGR.<sup>9</sup> That CAGR has fallen to closer to 35-45% from 2013-2017.<sup>10</sup> This cap on bit supply growth, when paired with strong demand, fundamentally limits how far out of balance the market can get, and we believe that is a key difference compared to past cycles. And fifth, manufacturers are already acting rationally by curbing supply in the face of slowing demand. That was not always the case. On Western Digital's last earnings conference call, Chief Operating Officer Mike Cordano spoke to this point directly, telling analysts: "We are in discussions with Toshiba Memory Corporation, our joint venture partner, to moderate the near-term pace of capital investments."<sup>11</sup> Bottom line, for all of these reasons, we think the current NAND cycle is likely to be less harsh than the past cycles that bearish analysts may be using to formulate their views.

## Gross margins cratered during past down cycles and they are likely to crater again

While it is true that gross margins have declined meaningfully from peak-to-trough in past cycles, for the most recent cycle, the fall in gross margins was capped at about 15 percentage points (as shown in the chart below). The one glaring exception to this trend came during the financial crisis. Our view is that given

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<sup>5</sup> [https://en.wikipedia.org/wiki/Straw\\_man](https://en.wikipedia.org/wiki/Straw_man)

<sup>6</sup> NAND is a type of non-volatile memory. The memory business, like many businesses, has a business cycle of good times and bad times.

<sup>7</sup> Micron Investor Day, May 21, 2018. HDD and "SSD Primer: Demand for Capacity to Drive Long-Term Growth," Deutsche Bank, April 12, 2016. Analyst estimates.

<sup>8</sup> Micron Investor Day Presentation - 05/21/18

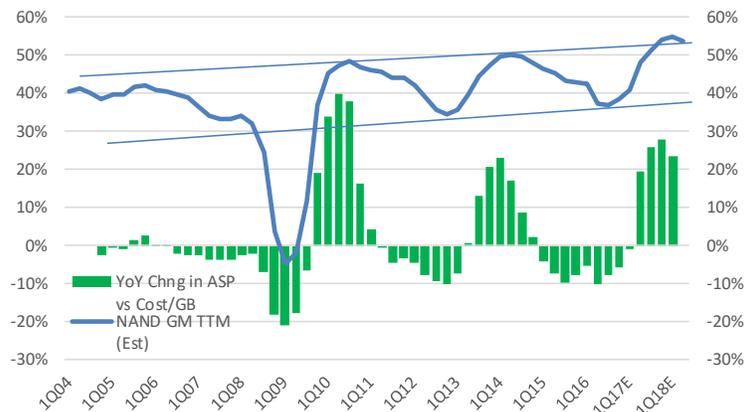
<sup>9</sup> Compound annual growth rate.

<sup>10</sup> Seagate Presentation – Mission Impossible: Surviving Today's Flood of Critical Data – August 2017

<sup>11</sup> 4Q 2018 Earnings conference call.

all of the positive structural changes in the industry discussed above, the industry is very unlikely to see a fall in gross margins anywhere near what we saw in 2009. Instead, we expect gross margins to fall a few percentage points in each of the next several quarters while the market rebalances. One final point: As you might expect for an industry whose quality is improving, we see a general up-trend in gross margin with each subsequent cycle (higher highs and higher lows).

**Gross Margins Have Tended to Cycle In A 15%-pt Range From Peak-to-Trough**



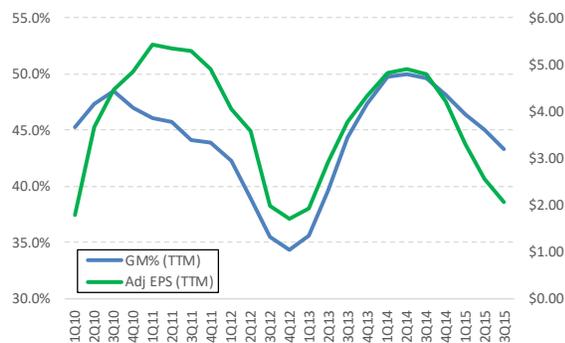
Source: SNDK company reports, WDC company reports & FPA Analysis

ASP = Average Sales Price; GB = Gigabyte; WDC = Western Digital Corporation; SNDK = SanDisk Corporation which was acquired by WDC on May 12<sup>th</sup> 2016; Data shown prior to the acquisition is for SNDK stand-alone. WDC did not have a NAND division prior to the acquisition.

## Collapsing gross margins means falling earnings & the stock price will follow earnings lower

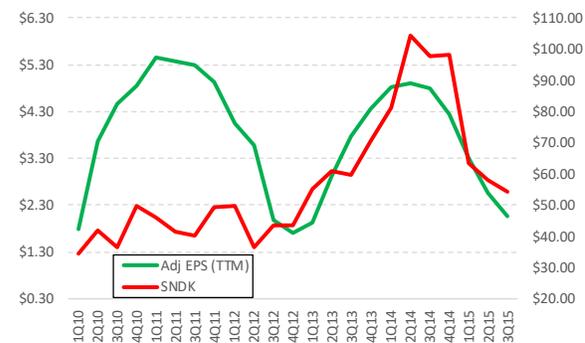
If we look at past cycles, it is really no surprise that earnings per share (“EPS”) tends to follow gross margins lower. However, as shown in the charts below, the stock price doesn’t always head lower when EPS is temporarily pressured by the down-cycle. In fact, during the gross margin compression cycle from 2010 to 2012, the stock mostly traded sideways. Furthermore, the stock bottomed almost two full quarters before gross margin, and even kicked off a sustained rally while gross margins continued to fall. Said another way, even though we agree that gross margins and EPS are heading lower near-term, that does not mean the stock will continue to trend down as well.

**Lower Gross Margins Led To Lower EPS, As Expected**



Source: CapIQ (Adj EPS = Dil EPS ex-extra items) & SNDK Filings

**But Lower EPS Did Not Lead To Lower A Lower Stock Price**



Source: CapIQ (Adj EPS = Dil EPS ex-extra items) & SNDK Filings

Note: SNDK was acquired by WDC on May 12th 2016. Data shown prior to the acquisition is for SNDK stand-alone. WDC did not have a NAND division prior to the acquisition.

In addition, if the stock is so cheap, why is the company not buying back shares?

The company did virtually no buybacks over the previous two years, but there were good reasons for that. First, the company was in the midst of its dispute with Toshiba (its joint venture partner).<sup>12</sup> This dispute is behind them now. Second, the company's debt level increased to almost \$17 billion after its acquisition of SanDisk Corporation in May 2016. Since then, the company has not only decreased its gross debt level to \$11 billion, but also cut its annual interest expense by over 40% via debt pay down and successful refinancing.<sup>13</sup> The improved operational performance, coupled with the reduced interest payments, has bolstered Western Digital's free cash flow to over \$3.3 billion over the last 12 months<sup>14</sup>.

Following these improvements in the balance sheet and free cash flow generation, the company repurchased over \$430 million worth of shares (nearly 2% of shares outstanding) in the second calendar quarter of 2018. It also announced a \$5 billion repurchase authorization<sup>15</sup> – which, if executed at today's share price, would shrink the share count by nearly a third. Furthermore, we estimate that Western Digital has already repurchased nearly 5 million shares through the first half of 3Q2018, based on disclosures in its most recent 10-K. This would put the company on pace to repurchase ~3% of shares outstanding in the current quarter alone. We believe these repurchases will be accretive to long-term shareholders and we applaud the move as a sound capital allocation decision.

When we evaluate the bear case, we take issue with essentially all of its core arguments. Additionally, the bear case entirely ignores what we believe to be a compelling current valuation for Western Digital. On a trailing 12-month basis through FY18'4Q, the stock trades at a 3.8x adj P/E and a 4.2x EBITDA multiple, and on a forward-basis it trades at a 5.0x adj P/E and a 3.7x EBITDA multiple (as of October 17, 2018). These are multiples typically reserved for dying businesses with no terminal value. In our view, they are not applicable to a thriving, growing business like Western Digital. Furthermore, even if estimates continue to fall, we believe these low multiples provide a margin of safety for our investment.

Now let us take a look back at our history with this stock. We have owned Western Digital stock and traded around our position very successfully for over a decade (as shown in the chart below). Historically, the market has provided us with many opportunities to take advantage of short-term pessimism and euphoria, and we have tended to capitalize on those periods. We believe the stock's decline over the last few quarters represents the latest wave of pessimism. During this period, we have added to our position substantially, and we feel strongly that the downturn has presented us with yet another compelling opportunity with a company we know very well.

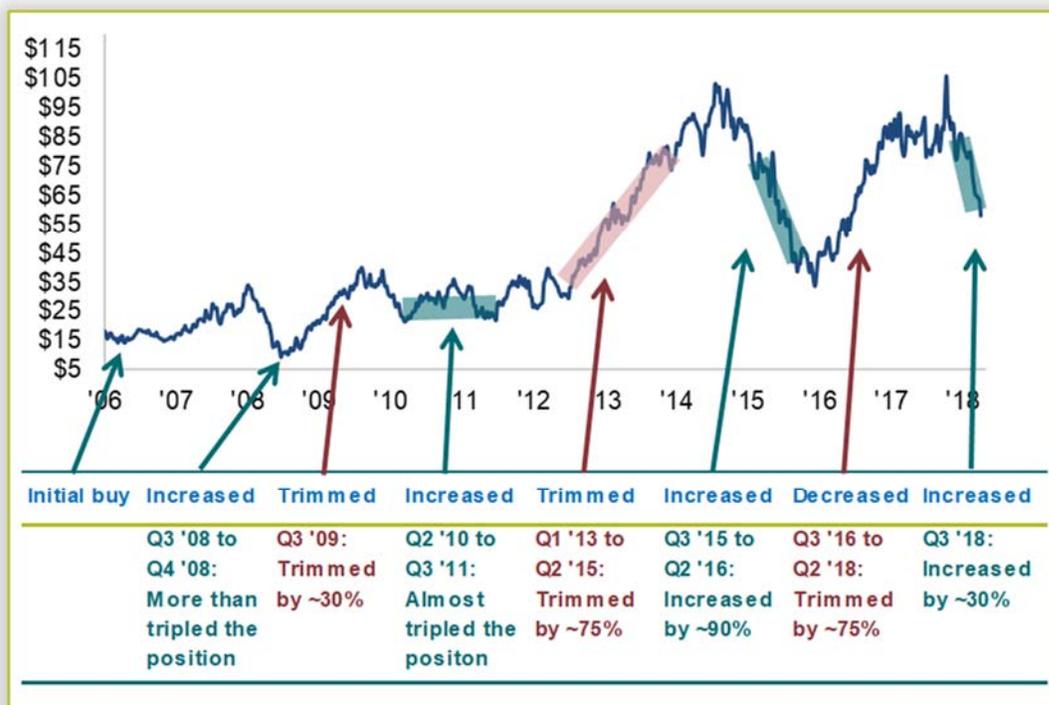
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<sup>12</sup> <https://www.bloomberg.com/news/articles/2017-12-12/toshiba-western-digital-settle-fight-over-chip-unit-sale>

<sup>13</sup> WDC's 4Q18 Earnings release – 07/26/18

<sup>14</sup> WDC's 4Q18 Earnings release – 07/26/18

<sup>15</sup> WDC's 4Q18 Earnings release – 07/26/18



Source: FPA. See also the Fund's portfolio of investments contained within SEC N-Q and N-CSR filings at <https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000099188&type=&dateb=&owner=exclude&start=0&count=40>

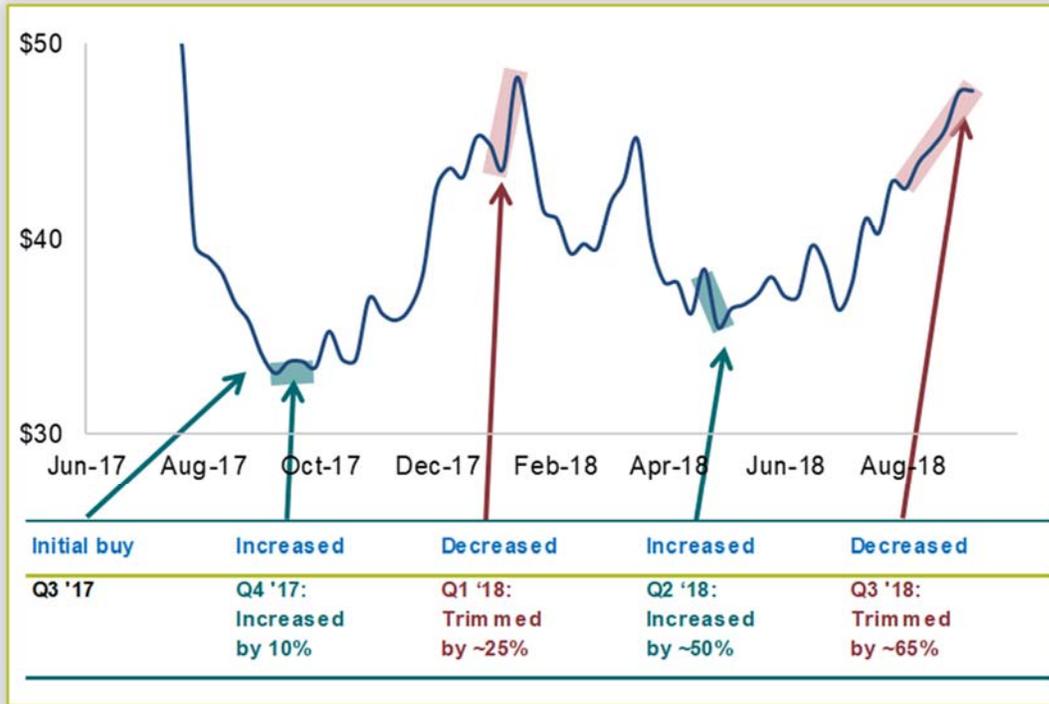
### Spirit Airlines, Inc. (NYSE: SAVE)<sup>3</sup>

One of the largest contributors during the third quarter was Spirit Airlines (NYSE: SAVE). SAVE is an ultra-low-cost airline offering flights throughout the United States, as well as to and from the Caribbean, Mexico, Central America, and South America. We invested in SAVE because of its industry-leading cost advantage, which allows the airline to sustainably offer lower fares than peers at margins that support attractive, full-cycle returns on capital. Further, while the ultra-low-cost model clearly offers value to consumers, we believe it still represents only a small portion of domestic capacity, providing a long-term 'runway' for future growth.

Our thesis at initial purchase (3Q 2017) was that the share price was reflecting unsustainably low fares driven by high near-term industry capacity growth rates. We believe there also were exaggerated fears that SAVE's leading unit-cost advantage was in jeopardy due to the renegotiation of a compensation contract with the pilot's union. Since our initial investment, SAVE executed a multi-year pilot compensation contract that did not adversely affect their unit cost advantage.

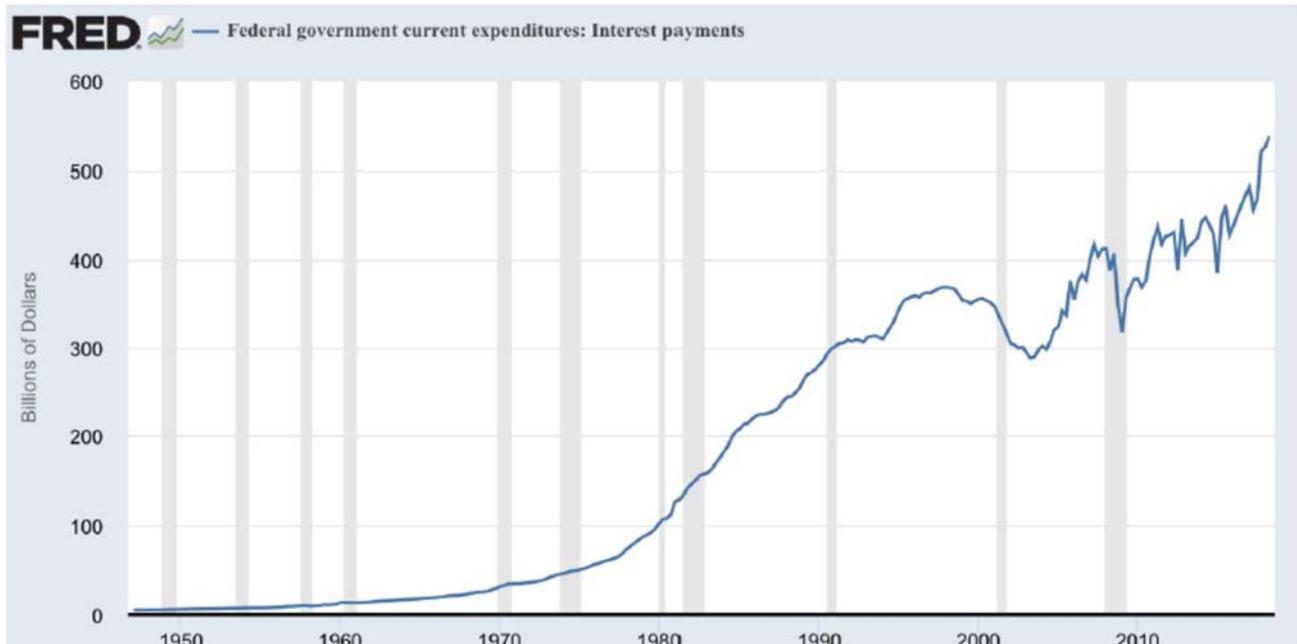
Additionally, the industry – including SAVE – has started to dial back on domestic capacity growth as a way to improve revenue yields in light of higher fuel costs (which are still well below our valuation assumptions). In addition to providing improved yield management, the decline in competitive capacity growth has had a positive effect on investor sentiment towards the airline space.

We generally view airlines as opportunistic investments as opposed to core long-term holdings. As such, we have been aggressive in taking chips off the table as the share price has approached our estimate of intrinsic value. The chart below illustrates how we have managed position sizing since our initial investment.



Source: FPA. See also the Fund's portfolio of investments contained within SEC N-Q and N-CSR filings at <https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000099188&type=&dateb=&owner=exclude&start=0&count=40>

Scariest chart I saw this quarter:<sup>16</sup>



<sup>16</sup> <https://fred.stlouisfed.org/series/A091RC1Q027SBEA>

The national debt of the United States recently surpassed \$21 trillion for the first time as compared to 2Q 2018 annualized GDP of \$20 trillion.<sup>17</sup> Accordingly, government interest expenditures jumped to almost \$550 billion a year. With expected trillion-dollar-plus annual budget deficits for many years to come, the national debt will continue to break one record after another.

The budget office projects that government interest expenditures will match military spending by 2023. However, that assumes that interest rates remain near today's levels and that GDP continues to grow unabated at 2% to 3% per year. A rate increase of just a few hundred basis points from today's historically low levels could more than double annual interest costs.

So far, the nation's escalating leverage has had a relatively benign impact on the economy and markets – but that cannot last indefinitely. We suspect the continued normalization of interest rates, a recession, or some other factor could tip the balance, so we continue to take a cautious view on the equity market. We believe our bottom-up valuation work offers added protection.

## In Conclusion

The market continues to be very expensive. The Russell 2500 is trading at a 30.0x earnings multiple despite many economic and geopolitical risks. We remain disciplined, and the Fund is only 70.7% long. The Fund's portfolio's earnings multiple is 56% lower than that of the index and its price-to-book is 27% lower despite a 2.6% higher return on equity. We remain disciplined contrarian investors. We believe many of the Fund's portfolio companies' stock prices are like a coiled spring waiting to be sprung. Hence, we remain excited about the Fund's portfolio prospectively despite our cautious tone about the overall stock market.

We thank you for your support and appreciate the trust you have placed in us.

Sincerely,

Arik Ahitov, Portfolio Manager

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<sup>17</sup> <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey>

## Important Disclosures

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.

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, the Adviser, 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](http://www.fpa.com).

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. 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. You 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.

The **S&P 500 Index** includes a representative sample of 500 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.

**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 FPA Funds are distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.*



TICKER	SHARES / PRINCIPAL	SECURITY	COUPON RATE (%)	MATURITY DATE	MKT PRICE (\$)	MKT VALUE (\$)	% OF NET ASSET VALUE
<b>COMMON STOCKS</b>							
AAN	126,970	AARON'S INC			54.46	6,914,786	2.1%
AGCO	171,728	AGCO CORP			60.79	10,439,345	3.1%
ALGT	134,354	ALLEGIANT TRAVEL CO			126.80	17,036,087	5.1%
ARRS	611,247	ARRIS INTERNATIONAL PLC			25.99	15,886,310	4.7%
ARW	43,202	ARROW ELECTRONICS INC			73.72	3,184,851	0.9%
AVT	310,404	AVNET INC			44.77	13,896,787	4.1%
CFFN	639,711	CAPITOL FEDERAL FINANCIAL			12.74	8,149,918	2.4%
XEC	201,678	CIMAREX ENERGY CO			92.94	18,743,953	5.6%
CISN	252,214	CISION LTD			16.80	4,237,195	1.3%
DAN	413,784	DANA INC			18.67	7,725,347	2.3%
FI	1,035,870	FRANKS INTL N V			8.68	8,991,352	2.7%
GNTX	346,798	GENTEX CORP			21.46	7,442,285	2.2%
GPX	833,257	GRAPHIC PACKAGING HOLDING CO			14.01	11,673,931	3.5%
IDCC	193,385	INTERDIGITAL INC			80.00	15,470,800	4.6%
NBL	459,781	NOBLE ENERGY INC			31.19	14,340,569	4.3%
		OTHER				16,699,741	4.9%
PTEN	708,752	PATTERSON UTI ENERGY INC			17.11	12,126,747	3.6%
RDC	441,262	ROWAN COMPANIES PLC			18.83	8,308,963	2.5%
SM	442,962	SM ENERGY CO			31.53	13,966,592	4.2%
SAVE	93,204	SPIRIT AIRLINES INC			46.97	4,377,792	1.3%
WDC	303,319	WESTERN DIGITAL CORP			58.54	17,756,294	5.3%
		<b>TOTAL COMMON STOCKS</b>				<b>237,369,646</b>	<b>70.7%</b>
<b>U.S GOVERNMENT AND AGENCIES</b>							
	10,000,000	US TREASURY NOTE	1.250	10/31/2018	99.91	9,991,328	3.0%
	7,500,000	US TREASURY NOTE	1.250	11/30/2018	99.84	7,487,696	2.2%
	7,500,000	US TREASURY NOTE	1.500	12/31/2018	99.80	7,485,293	2.2%
	7,500,000	US TREASURY NOTE	1.500	01/31/2019	99.72	7,478,906	2.2%
	7,500,000	US TREASURY NOTE	1.500	02/28/2019	99.65	7,473,662	2.2%
	10,000,000	US TREASURY NOTE	1.625	03/31/2019	99.61	9,960,938	3.0%
	10,000,000	US TREASURY NOTE	1.250	04/30/2019	99.31	9,931,289	3.0%
	7,500,000	US TREASURY NOTE	1.500	05/31/2019	99.34	7,450,517	2.2%
	7,500,000	US TREASURY NOTE	1.625	06/30/2019	99.32	7,449,346	2.2%
	10,000,000	US TREASURY NOTE	0.750	07/15/2019	98.60	9,859,922	3.0%
		<b>TOTAL U.S GOVERNMENT AND AGENCIES</b>				<b>84,568,897</b>	<b>25.2%</b>
<b>REPURCHASE AGREEMENTS</b>							
	15,874,000	STATE STREET BANK/FICC REPO	0.420	10/01/2018		15,874,000	4.7%
		<b>TOTAL REPURCHASE AGREEMENTS</b>				<b>15,874,000</b>	<b>4.7%</b>
		CASH & EQUIVALENTS (NET OF LIABILITIES)				(2,088,997)	-0.6%
		<b>TOTAL CASH &amp; EQUIVALENTS</b>				<b>98,353,900</b>	<b>29.3%</b>
		<b>TOTAL NET ASSETS</b>				<b>\$ 335,723,546</b>	<b>100.0%</b>
		<b>NO. OF EQUITY POSITIONS</b>					<b>20</b>

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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 website at [www.fpa.com](http://www.fpa.com), by email at [crm@fpa.com](mailto: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. Stock 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 Depositary 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. 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.

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 Funds, the Portfolio Managers or Distributor.

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