MORNINGSTAR®

FPA Crescent FPACX

Adapting well.

Morningstar's Take FPACX

Morningstar Rating	★★★★
Morningstar Analyst Rating	Gold

Morningstar Pillars

Process	Positive
Performance	Positive
People	Positive
Parent	Positive
Price	Negative

Role In Portfolio
Supporting

Fund Performance FPACX

Year	Total Return (%)	+/- Category
YTD	-0.84	-0.74
2017	10.39	-2.82
2016	10.25	2.91
2015	-2.06	-0.13
2014	6.64	0.43

Data through 5-31-18

5-18-18 | by Dan Culloton

This fund has evolved, but its managers' experience, patience and independent investing style still earn it a Morningstar Analyst Rating of Gold.

This is no longer a one-man show. Steve Romick owns the fund's excellent record since its 1993 inception, but he's had the help of comanagers Brian Selmo and Mark Landecker since 2013. The team now also includes eight analysts with an average of nearly four years at FPA.

The larger team has helped broaden the fund's investment universe as its asset size has grown. Landecker and Selmo have built a reservoir of companies with durable business models and earnings prowess on which the team can pounce when their shares look inexpensive. Other analysts have helped the team prepare quickly for other contrarian opportunities, such as the fund's late 2017 purchase of Puerto Rico bonds.

The team remains cautious and value-minded. A long bull market and the rise of adaptable and disruptive business models, such as Amazon.com AMZN, has fostered perilous market conditions marked by high valuations and perishable competitive advantages, the managers say. Low yields don't compensate bond investors for the risk of rising rates or defaults among high-yield bonds. As a result, the fund has been content to hold a lot of cash and, when it has deployed capital, to do so selectively in large-cap companies with enduring earnings power rather than statistically cheap but competitively compromised businesses. It also has picked its spots in rigorously vetted special situations. The fund bought Facebook FB when privacy and regulatory concerns drove its shares down more than 9% in 2018's first quarter and added the Puerto Rico debt at a big discounts to par value in 2017.

Though this fund's long-term risk reward profile is admirable, it's not without risk. Short exposure is at an all-time high of nearly 11% of assets owing to pair trades crafted to capture the spread between undervalued parents and overvalued affiliates, such as, respectively, Naspers and Tencent. That position has hurt, but the managers still find it compelling.

Process Pillar Positive | Dan Culloton 05/18/2018

This fund ranges across asset classes, market caps, sectors, geographies, and public and private markets in pursuit of equitylike returns with less risk. The managers, who can also short securities, are absolute value investors who view risk as the possibility of suffering permanent loss, not of underperforming a benchmark or peer group. They seek securities trading at discounts to their estimated worth that can deliver at least high single to double-digit returns, and they'll stockpile cash when they can't find them. This flexible approach earns a Positive Process Pillar rating.

The fund's asset allocation varies based on where value resides. In the late 1990s and early 2000s, it favored small caps that had lagged in the 1990s bull market. In 2008, it turned to high-yield and distressed debt, believing they were cheaper than stocks. Since 2009, the fund has shifted to durable "compounders" at decent prices. Macroeconomics influence, but don't drive, the process. Low interest rates and high equity valuations have influenced the fund's more recent cautious positioning. Over the long term it has tended to keep about 63% of its money in "risk assets" such as stocks or high-yield bonds.

The fund usually pairs its shorts with long positions in an effort to exploit valuation gaps between expensive securities and their overlooked parents or major owners.

While still cautious about overall valuations, this fund has put some money to work.

Steve Romick and comanagers Mark Landecker and Brian Selmo continue to trim positions, such as financials stocks, that have moved up in recent years and still consider high-yield bond yields derisory. They did, however, exploit early 2018's increased volatility to buy the shares of companies with what they consider durable earnings prowess. The fund, for instance, added Facebook FB in the first quarter when its shares dropped more than 9% on privacy and regulatory controversies. In 2017's fourth quarter, the fund also added Puerto Rico general-obligation and water and sewer bonds that the managers concluded were backed by sound investor protections and essential services.

The fund approached mid-2018 more invested than it had been but still close to its long-term average of 63% of the portfolio in "risk assets." Its large cash stake makes it more conservative than many allocation--50% to 70% equity category peers and the global stock market, but there are risks. Short positions have reached an all-time high of nearly 11% owing to pair trades, including one comprising a short on Tencent and a long stake in South Africa media holding company Naspers, which owns one third of the Chinese Internet giant but trades at deep discount to it. The trade hasn't worked thus far, but the managers still think the spread will close.

Performance Pillar ⊕ Positive | Dan Culloton 05/18/2018
The fund's stated mission is to deliver equitylike returns with less risk than the stock market-- a hurdle it has far exceeded since inception--and earns a Positive Performance Pillar rating. Its 10.2% annualized gain from its June 1993 launch through April 30, 2018, beats the S&P 500 by two thirds of a percentage point per year, while its standard deviation, a measure of volatility, was about 31% lower than the index's.

FPA Crescent has won by not losing. With an oft-heavy cash stake, it will lag in some rallies. From its 1993 inception through the end of April 2018, it captured 69% of the S&P 500's gains in upturns. However, it was able to preserve those gains in rough environments, suffering just 47% of the index's losses in downturns.

Over longer stretches, performance has been consistent. In 178 rolling 10-year periods from its birth through the end of April 2018, the fund beat the allocation--50% to 70% equity Morningstar Category average 100% of the time and the S&P 500 83% of the time.

It fares well on both an absolute and risk-adjusted basis against rivals and benchmarks with 60%/40% stock/bond mixes. Its Morningstar Risk-Adjusted Return of 6.4% annualized from inception through April 2018 beats the 4.5% of Vanguard Balanced Index VBIAX, which passively invests in the total stock and bond markets.

People Pillar ⊕ Positive | Dan Culloton 05/18/2018
Steve Romick has led FPA Crescent since its 1993 inception, compiling a stellar record along the way. The fund isn't a one-man show, though. Analysts and investment committee members Brian Selmo and Mark Landecker have been comanagers since June 2013. Selmo is also research director for the Crescent team, overseeing about eight analysts with an average FPA tenure of 3.5 years. In total, 11 investment professionals work on this fund, which earns a Positive People Pillar rating.

FPA targets experienced analysts, but it takes pains to ensure its hires share the firm's distinctive investment style. Selmo, for example, had founded his own asset-management firm and was an analyst at value shop Third Avenue before joining in 2008. Landecker worked at Kinney Asset Management and Arrow Investments before joining in 2009.

Romick collaborates with other managers at the firm. In total, FPA has 33 investment professionals with an average tenure with the firm of seven years. Romick's role at FPA has grown as former partner Bob Rodriguez stepped back and then retired in 2016, though FPA Crescent remains the only FPA mutual fund he manages. He, Landecker, and Selmo also run a hedge fund, separate accounts, and a piece of Litman Gregory Masters Alternative Strategies MASFX. Each manager invests more than $1 million here.

Parent Pillar ⊕ Positive | Dan Culloton 03/28/2018
FPA earns a Positive Parent Pillar rating by living up to its slogan--investors first.

Steve Romick, the manager of FPA Crescent FPACX and one of the industry's most unique and successful value investors, now runs the firm with managing partner and CFO J. Richard Atwood and serves as its public face.

Like Romick and other now retired or departed luminaries of the firm, such as Bob Rodriguez and George Michaelis, FPA's investment teams strive to be uncompromising, patient, value-oriented investors. While the teams work independently, they share this absolute-return-focused philosophy.

That ethos remains even though there have been personnel changes and fund reorganizations in recent years. Those changes still bear watching, but the firm's clear identity and metier have helped it attract and retain a mix of experienced, like-minded investors and younger talent in their formative stages.

The firm overall and its largest strategy, FPA Crescent, have seen outflows in recent years, but capacity at its $17 billion flagship fund still bears watching. The 64-year-old firm, however, has bolstered personnel and technology and does much else well. Fees are reasonable, and FPA managers eat their own cooking, focus on the long term, disdain trendy fund launches, avoid regulatory snafus, and write smart and engaging shareholder letters. It's still a capable steward.

Price Pillar ⊖ Negative | Dan Culloton 05/18/2018
FPA Crescent is expensive relative to its category and gets a Negative Price rating. Its 1.10% annual price tag, according to its most recent annual report, though lower than in the past, remains above the category average and median. Outsourcing accounting and administration has shaved some basis points off this fund's levy, but assets, despite recent seeing outflows in recent years, still stand at nearly $17 billion, up from from $1.2 billion in 2008. Shareholders have benefited in the form of lower administrative costs, but the fund's flat 1% management fee limits the extent to which they will profit from improving economies of scale.

FPA Crescent 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 this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.

Average Annual Total Returns (%) – Net of Fees

										Market Cycle Performance	
As of Date: 3/31/18	Inception*	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTD	3/25/00-10/9/07	10/10/07-3/31/18
FPA Crescent	10.23	8.23	9.26	7.27	7.44	5.63	5.74	-0.98	-0.98	14.70	6.66
S&P 500	9.49	6.46	10.10	9.49	13.31	10.78	13.99	-0.76	-0.76	2.00	7.41
MSCI ACWI**	-	-	-	-	9.20	8.12	14.85	-0.96	-0.96	-	3.93
60% S&P500/40% BBgBarc US Agg	8.05	6.11	7.85	7.42	8.72	6.99	8.81	-0.97	-0.97	3.97	6.32
CPI	NA	2.18	2.05	1.57	1.43	1.89	2.34	0.60	0.60	2.75	1.72

Periods greater than one year are annualized. Performance is calculated on a total return basis which includes reinvestment of all distributions. Comparison to any Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

* The Fund commenced operations on June 2, 1993. The performance shown for periods prior to March 1, 1996 reflects the historical performance of a predecessor fund; FPA assumed control of the predecessor fund on March 1, 1996. FPA Crescent Fund's objectives, policies, guidelines, and restrictions are, in all material respects, equivalent to those of the predecessor fund.

Market Cycle Performance reflects the two most recent market cycles (peak to peak) defined as a period that contains a decline of at least 20% from the previous market peak over at least a two-month period and a rebound to establish a new peak above the prior market peak. The current cycle is ongoing and thus presented through the most recent quarter-end. Once the cycle closes, the results presented may differ materially.

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 1.10%. A redemption fee of 2% will be imposed on redemptions within 90 days. Current month-end performance data may be obtained at www.fpafunds.com or by calling toll-free, 1-800-982-4372.

Please see important disclosures at the end of the commentary.

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 managers, 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.fpafunds.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; these risks may be heightened when investing in emerging markets. Small and mid-cap stocks involve greater risks and may fluctuate in price more than larger company stocks. Short-selling involves increased risks and transaction costs. You risk paying more for a security than you received from its sale.

Interest rate risk is the risk that 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 principal 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 of its value. 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-backed 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.

Value securities, including those selected by the Fund's portfolio managers, are subject to the risk that their intrinsic value may never be realized by the market because the market fails to recognize what the portfolio managers consider to be their true business value or because the portfolio managers have 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 Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-

59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10- year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

FPA Crescent Fund was rated against the following numbers of US Fund Allocation – 50% to 70% Equity funds over the following time periods: 3 stars out of 671 funds in the last three years, 3 stars out of 616 funds in the last five years, and 4 stars out of 440 funds in the last ten years. Past performance is no guarantee of future results.

The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark, or in the case of exchange-traded funds and index mutual funds, a relevant peer group, over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weight of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's conviction in a fund's prospects for outperformance. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to global.morningstar.com/managerdisclosures/.

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause Analyst expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

Index Definitions

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

MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices.

Barclays Aggregate Index provides a measure of the performance of the U.S. investment grade bonds market, which includes investment grade U.S. Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1 year remaining in maturity. In addition, the securities must be denominated in U.S. dollars and must be fixed rate, nonconvertible, and taxable.

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 Fund's purchasing power against changes in the prices of goods as opposed to a benchmark, which is used to compare the Fund's performance. There can be no guarantee that the CPI will reflect the exact level of inflation at any given time.

60% S&P500/ 40% Barclays Aggregate Index is a hypothetical combination of unmanaged indices and comprises 60% S&P 500 Index and 40% Barclays Aggregate Index, the Fund's neutral mix of 60% stocks and 40% bonds.

Indices are unmanaged, do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. Investors cannot invest directly in an index.