Note: Items in brackets [ ] are meant to be clarifying statements but are not part of the actual audio recording of the webcast.

This transcript must be read in conjunction with the corresponding webcast slides posted on fpa.com. The webcast slide numbers are referenced below. Please also reference the Important Disclosures at the end of this transcript and throughout and at the end of the webcast presentation.

(00:00:18)

Moderator: Hello and welcome to today's webcast. My name is Mike and I will be your event specialist today. All lines have been placed on mute to prevent any background noise. Please note today's webcast is being recorded.

During the presentation, we will have a question and answer session. You can ask text questions at any time. Click the green Q&A icon on the lower left-hand corner of your screen, type your question in the open area, and click Ask to submit.

If you would like to view the presentation in a full-screen view, click the Full Screen button in the lower right-hand corner of your screen. Press the Escape key on your keyboard to return to your original view. For optimal viewing and participation, please disable your popup blockers.

And finally, should you need technical assistance, as a best practice, we suggest you first refresh your browser. If that does not resolve the issue, please click on the Support option upper right-hand corner of your screen for online troubleshooting.

And it is now my pleasure to turn today's program over to Ryan Leggio. Ryan, the floor is yours.

Ryan: Thank you so much and good afternoon, everyone. Thank you for joining us today. We'd like to welcome you to this special FPA Crescent first quarter webcast. My name is Ryan Leggio and I am a partner here at FPA.

The audio, transcript and replay of this webcast will be made available on our website FPA.com in the coming days. In addition, please visit FPA.com and the FPA Crescent portion of our website for updated information on the Fund.

A few quick notes before we begin.

First, this call will be taking the place of our normal first quarter webcast. We will still be publishing our normal first quarter letter in the coming weeks, as well as a full presentation deck in the coming weeks as well.

Secondly, there are no written materials for this webcast. It will just be an audio webcast.

(00:02:12)

And number three, because of the numerous questions that were pre-submitted for this call, we will likely not have any time to take live questions during this call. If, for some reason, we either missed your pre-submitted question or if you submit live questions during this call, trust that we will get back to you in the coming days.

Momentarily, you will hear from Steven Romick, Brian Selmo and Mark Landecker, the portfolio managers of our Contrarian Value Strategy, which includes the FPA Crescent Fund.

Steven has managed the FPA Crescent Fund since its inception in 1993, with Brian and Mark joining Steven as portfolio managers in June of 2013.

At this time, it is my pleasure to turn over the call to Steven Romick. Steven, over to you.

Steven: Thank you, everybody. Thank you, Ryan, and thanks for joining us today. The background noise you just heard was me telling my kids to get away, this challenge of working remotely. And I hope that everyone is healthy and managing through what is clearly a tremendous amount of stress.

Our priority at FPA is to ensure that we're taking care of our partners, employees, families and clients. Fortunately, FPA has a solid debt-free balance sheet and at this time, everyone is healthy at the company. We have activated our business continuity protocols and all team members have been working remotely while hardly skipping a beat. Regular conference calls we do via video have allowed us to continue to operate effectively. We are currently conducting this call with each of us in separate locations. I'd like to thank everyone at FPA who has made this possible. It's been a tremendous team effort, and we are all very, very appreciative.

(00:03:55)

A lot has happened, clearly, since our Q4 conference call. We felt it was important to get in front of you so we're not waiting to our usual time at end of April. We did not prepare charts and tables for today's call as our constant focus has been on research and portfolio management.

Before we dive into our prepared remarks, I'll offer an executive summary on what the hopeful takeaways from this call will be.

First, the world isn't coming to an end. The impact on our portfolio is largely a mark-to-market reaction to the most unsettling series of events that has ever occurred to most of us. We appreciate that it is unpleasant to see your portfolio both decline in price—though not necessarily in value—and to share in the downside capture towards the higher end of Crescent's historical experience.

Second, we have put some of our cash to work and are genuinely happy with where we are, although we are not presently pounding the table to get fully invested. Specifically, we've put about 700 basis points of cash to work over the last few weeks. Total net risk exposure, however, has increased by about 1,000 basis points thanks to this week's market rally. Net risk exposure was 63% coming into this; it is now 73%. More specific details of this and recent holdings can be found on the FPA Crescent portion of our website.[1]

Third and last, [we believe] Crescent's portfolio of securities is more attractive and interesting than it's been in many years. That's why I've added to my holding in Crescent and its sister fund Source Capital in recent weeks.

A relative statement regarding the attractiveness, given that our cash, albeit lower, is still almost 30%. In a market selloff, your first purchase is generally not your best. In fact, we hope not because you most likely won't have established a full position. This has certainly been true with respect to Crescent. If you don't buy your first shares now, then you won't be buying your second, let alone your third and fourth. We are in a position of having the liquidity to continue to lean into any future market weakness.

(00:05:51)

We have addressed many of our client's questions that were pre-submitted in our prepared remarks. We will address other questions in a

[1] Exposure and holdings data is as of March 25, 2020.

Q&A following. Some investment-specific questions cannot be answered as we have many trades on the desk that we are currently working.

The coronavirus is the first media virus. I don't want to understate its impact, but it has certainly created, at the very least, a panic-demic. Stocks traded down with more fear than I've ever witnessed. There is a great deal we don't know, but we do know that business values aren't changing 20-30% up and down day to day, let along intraday. A lot of this volatility is due to simultaneously dealing with two issues. The first, financial, a loss, a redemption of our income and/or net worth. And if that doesn't create enough stress, we add to that the existential fear that comes with facing our own mortality. We haven't ever collectively faced the two together in the US, although this could be the case in other countries. The two together has created emotion-squared and lifted an unprecedented negative feedback loop.

But if one thinks more calmly about what the longer-term impact might be, it's hard to not want to be invested because one day, people can be flying in planes, staying in hotels, eating in restaurants, and most likely using less toilet paper. This is translated to opportunities in the stock market, and has led us to increase our exposure. Our approach has always been to think—and act—longer term. That means sometimes having to act calmly, even contrarily, in the midst of turmoil or in volatility. This does not mean that stocks can't get cheaper still. Stocks can trade anywhere. Emotion takes them there. This can certainly get worse over the shorter term, particularly as tests become more widely available and we see a continued ramp in confirmed COVID cases. But one day, it will get better.

We don't have any idea what happens in the next six months. However, with a conservative set of assumptions, we always look to where we think we are likely to be in five years. That's the only way we know how to keep a clear head. There's a lot of gyrations to the market and a host of short-term potential outcomes which leads to mental fatigue. As fuzzy as our crystal ball is when looking into the near future, it becomes less hazy as we look further out. This does not mean that we won't own today—that what we own today won't go down tomorrow. But we invest with a mindset that if we fell asleep for a few years, we will be happy with what we've owned when we awaken.

(00:08:31)

George W. Bush went into Iraq with the goal of shock and awe. Political leaders around the world have now taken that same approach into a different battle. This won't have an immediate economic fix. People have to get out of their homes. Those companies that can restart will. Most will. But some won't. Then as the stimulus begins to work its way through the system and the spending will create some catchup. Governments will have writer's cramp from writing so many checks, those forgiving individual debt, making new small business loans, bailing out essential businesses, with equity infusions and more. Whatever it takes is what will happen. They've telegraphed that. They've told us that.

This would seem to virtually guarantee inflation over time, but maybe with a deflationary stop along the way. It would also seem to assure low rates in my lifetime, as we see no other way for governments to finance their debt. Even without inflation, an extremely low-yielding alternative might prove unacceptable to the investors.

This should be a good setup for stocks as a function of business quality and valuation. Stocks should provide a reasonable nominal yield over time and as painful as this is, we need to remember that.

(00:09:43)

We were hopeful for a market decline. I think what's happened is to come under the heading of “Be careful what you wish for”. Coming into this, we had about 40% of our portfolio liquid. If the stock and high yield markets were just not cheap, as we discussed ad nauseam at past shareholder conference calls and commentaries, that cannot protect us as we would have expected. We set up the portfolio to be robust in more than one outcome, either a half-decent economy that bumped along, or an economic downturn, even a deep recession. We were defensive for most circumstances, but not for what happened—the instantaneous and simultaneous global destruction of supply and demand that now drives high unemployment and work stoppages.

Crescent’s drawdown from peak to trough is 87% [of]the MSCI ACWI and the S&P 500 indices. The Fund’s drawdown was 79% of the value subsectors of the MSCI ACWI and S&P 500.[2] As value investors, the latter index is germane only to the extent that it helps explain recent performance. As you know, our long-term goals center around the broader

[2] Peak to trough referenced is from February 12, 2020 to March 23, 2020. During this period, the Fund’s drawdown was -29.03%, while the drawdown for the S&P 500 and MSCW ACWI index was -33.18% and -33.33%, respectively. The drawdown for the S&P 500 Value index was -36.69% and -36.90 for the MSCI ACWI Value index.

global market, and that's what we manage to. Anything less than that over time would be a disappointment.

Given what we saw as being a sustainably low level of interest rates, poor opportunities in high yield, and more global exposure, we have (inaudible @ 00:11:02) the Fund at a relatively higher volatility than in the past. However, this drawdown, although within our experience, is worse than we would like to report. Please allow me to offer some history and granularity to offer a perspective.

I have often said returns are not just driven by what you own but what you avoid. So it's harder to do that this time around as there wasn't much that could obviously be avoided. Low rates around the globe had lifted the asset prices in a fairly parallel fashion but didn't point to any one sector and asset class other than high yield as being excessively valued.

Things were different when we protected capital in the downturns of 2000-2003 and then again in the 2008-2009 timeframe.

[Please reference page 3 in the webcast] Even during 2000, we had no exposure to bubbly tech internet companies. The tech factor was priced to idiocy, while Crescent's portfolio at that time was dirt cheap. The Fund wildly underperformed in a couple of years to the early 2000 market price. We were aware enough to avoid the obvious overpriced internet stocks, and the stocks we owned were very, very cheap and ended up performing very well.[3]

(00:12:06)

[Please reference page 3 in the webcast] In the years preceding 2008 and '09, we publicly discussed the banks with their bad loans and too much leverage, and we saw an impending problem with subprime mortgages. I knew the unwind would be painful although it was more painful than I expected. We avoided all financials, and operated with a lot of cash and again, outperformed the market during that downturn.[4] But it's very important to remember that those stocks that we did own at that time declined more than the stock market.

If one can look past the short term, [we believe] our longer-term stock collection has been quite good. Crescent's long equities outperformed the S&P 500 by 1.6% or so annualized since 2007 and the MSCI ACWI by 4.9% since 2011, the year we added that global

[3] **Past performance is no guarantee, nor is it indicative, of future results.**

[4] Ibid

benchmark. This date is through the end of 2019. We do it quarterly.[5] [Please reference page 2 of the webcast for net performance of the Fund since inception.]

We don't know what the future holds of course, but we endeavor to continue to deliver equity outperformance in our long book. Although we have performed better than the market in this current drawdown period,[6] we have not protected capital as much as we had in previous downturns. While we believe our process has improved over time, we can understand why looking in from the outside, one might argue it was broken. This was a different setup coming into this downturn.

With our expected range of outcomes including that the economy would eventually fall into a recession, that interest rates would remain low,

[5] As of December 31, 2019. The performance of the long equity segment of the Fund is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. Please refer to page 2 of the webcast for overall net performance of the Fund since inception. Long equity holdings only includes equity securities excluding paired trades, short-sales, and preferred securities. **The long equity performance information shown herein is for illustrative purposes only and may not reflect the impact of material economic or market factors.** No representation is being made that any account, product or strategy will or is likely to achieve profits, losses, or results similar to those shown. Comparison to the S&P 500 and the MSCI ACWI indices 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. The MSCI ACWI was not considered a relevant illustrative index prior to 2011 because the Fund was not classified as a global mandate until this point in time. **Past performance is no guarantee, nor is it indicative, of future results.** Please refer to page 2 and the end of the webcast presentation for important disclosures and definitions of key terms.

[6] "..*performing better than the market*" refers to the Fund's long equity securities on a gross of fees basis. Please see footnote 5 for important disclosures regarding the Fund's long equity holdings.

we did not see many sectors or asset classes that covered large swathes of the market that should be avoided, other than high yield. There were some smaller sectors certainly besides the equities of malls, MLPs and other, E&P, energy companies amongst other things. But what we didn't own did not represent a large part of the market. our downside participation was largely dictated by our risk exposure coming into this downturn, leaning in with the buys as the market declined, as well as having some sector exposure that would prove to be unfortunate in light of what has transpired. We have witnessed many good companies decline in value to illogical levels, while seeing good businesses have some level of impairment that would not otherwise have occurred without COVID-19, a virus for which we did not underwrite.

(00:14:15)

Importantly, the resulting downside capture followed the high end of the range [and] when compared to the [Fund's] 60-90% drawdown over the last five years is not outside the Fund's realm of experience.[7] We don't know, if we retest the market loans, this story may not yet be written.

[7] The 60%-90% drawdown (or downside capture) range over the last 5 years is the Fund's returns as a percentage of the S&P 500 Index's returns during periods of 10% or more S&P 500 declines.

On the other hand, this drawdown might be nothing more than an idiosyncratic and ephemeral one-time event, albeit one with longer-term ramifications given the policy response.

For the last quarter-plus century, our goal has been to generate equity[-like] rates of return with less risk, and although our recent downside capture is better than the stock market and within our historic range of outcomes, it wasn't as much as we would have preferred. We believe this is entirely a function of this unanticipated black swan event. This does not mean we are content with the result.

Crescent's exposure to balance sheet-intensive financials, even though this was mid-single digits, was too high in retrospect. We had investments in the aerospace industry including Meggitt and Arconic, whose businesses are clearly harmed as a result of the global travel slowdown. These two sectors—banks and aerospace—as well as what we believe to be an appropriate buying into price weakness over the past few weeks, have been the biggest drivers of recent performance. We operate with an expected range of outcomes and a global pandemic was not one, meaning good and great businesses have been affected, at least temporarily, and this has exposed flaws in many weaker businesses. [Please reference page 2 in the webcast for net performance of the Fund.]

We do, however, manage for these black swan events. We know they're out there, but if you live—I'm sorry, we do not. I'm sorry, I misspoke. We do not, certainly do not manage for black swan events. We know they're out there but if you live each day waiting for it, you'd never be invested and over time, we believe you're virtually assured of generating mediocre rates of return. There is uncertainty in the world, but for going on three decades, we have never counted on certainty.

(00:16:13)

"Certainty" is really just a euphemism for complacency. We expect that volatility will eventually decline—the current volatility—and the global economy will find its new base level. With that in mind, we have done some buying into weakness of some of [what we think are] the better businesses in the world and are almost 30% liquid, ready to put to work some more bargains arising in the equity and high yield markets.

We are cognizant that the stock market frequently bottoms before the economy. Global stocks are just about back to December 2018 levels and the great companies are not yet at throwaway prices. As I mentioned, the “lower rates forever” argument benefits equities, all else equal. However, all is never equal. I have yet to see the effectiveness of the stimulus, how quickly it may be able to recover and corporate earnings growth, etc. nothing is certain. There's always the risk that a new economic order gives birth to a new social order. We remain long-term optimists, nonetheless. Optimists that the world hasn’t come to an end, and investing in good businesses with good balance sheets, with good growth prospects, will end up being a good place to be. Optimists that the markets will allow for an occasionally profitable foray into other parts of our company’s capital structure.

To that end, I did want to point out the portfolio management’s recent purchases in Crescent and its sister closed fund Source Capital, although again we aren’t sure now is the time to load up, we have and will continue to eat our cooking. If those high-quality companies found at great prices or high yield bonds offer higher return, you can expect to hear some bells ringing.

I’m going to turn it over to Brian for a little bit of a window into our portfolio. Brian?

(00:17:46)

Brian: Thanks, Steve. First I'd like to take a minute and thank the research and analyst team and the broader staff at FPA, who have worked tirelessly over the last few weeks. As you might know, in California we started practicing social distancing two or so weeks ago, and most of the team has been working from home over that time. We continue to meet regularly on Tuesdays, and conduct regular one-on-one and group catchups over Zoom, Microsoft Teams and on the phone. Mark, Steve and I have been very pleased with how hard the analysts have been working and how productive the team has been over the last number of weeks. I think you'll hear about some of that productivity when we go through the new positions and changes in the portfolio.

As Steve mentioned, we believe the portfolio is as attractively priced in value as any time over the last ten years—sorry, over the last five years. And over the last month, exposure has increased by approximately 10%, from 63% to about 73% yesterday.

This increase has been achieved through a number of transactions[8]. We have added 12 new higher-quality, high-conviction

[8] **The holdings and transaction information for the Fund discussed during this presentation is as of March 25, 2020 and is subject to change.** Portfolio composition will change due to ongoing management of the Fund. The

names. We have added to existing positions, and we have reduced and eliminated hedges, as well as sold a few names that are lower-conviction or where we think the fundamentals have been materially impacted by the COVID crisis.

In total, we believe these changes have improved the risk/reward of the portfolio while also reducing long-term risk.

One of the things we try to keep in mind when looking through new names and re-underwriting existing positions in the portfolio is if the market were to close for three years, would you be happy to own what you have, and how would you want to be positioned? From our perspective, it is quite clear that over the medium to long term, well-financed, high-quality equities are a more attractive position to be in than very low-yielding long- or medium-term government debt.

(00:20:07)

The setup right now for equities in our portfolio, from our perspective, is that in a normalized environment, we believe we are

information provided does not reflect all positions purchased, sold or recommended by FPA during the first quarter through March 25, 2020. References to individual securities or sectors 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 recommendations made in the future will be profitable or will equal the performance of the securities or sectors listed. A full list of the Fund's holdings as of March 25, 2020 can be found at www.fpa.com.

creating the portfolio at somewhere between 10 and 13 times normalized earnings in two or three years from now, into a more normal economic background.

If that's what were to play out, we would end up with somewhere between an 8% and 10% cash flow yield on our equities in businesses that we expect to grow over time. If one were to compare that to committing capital to the 10-year Treasury bond at 1 or less percent, it would be akin to trading an 8-10% growing yield or a less than 1% yield with a promise to never grow. From our perspective, the second alternative, the long-term treasury, is simply unattractive.

Now in terms of exposures, heading into March, we did not own any equity positions or exposure to the oil and gas industry. That continues to be the case. We also did not have any exposure in the hospitality, travel or retail or restaurant industries. We did have 5.5% in aerospace and a high-single digit net exposure to balance sheet financials.

Over the course of March, we have roughly maintained to slightly increased our exposure to balance sheet financials, largely by removing hedges. Our exposures currently are made up of six banks and two different financials that aren't strictly banks but are either an insurance company in the case of AIG or a holding company with a financial services business in Jefferies.

(00:21:57)

Briefly, the banks come into this crisis in a considerably better position than they headed into the Great Financial Crisis. Capital ratios are anywhere from 2-3 times greater in terms of a tangible equity-to-assets basis as they were heading into the financial crisis. There are no toxic assets on bank balance sheets and this crisis was not created or accelerated by excess lending or bubble-type activity in the real economy.

With that said, we do believe that charge-offs will be up materially. Areas of particular charge-off are likely to be credit cards and other consumer lending, as well as small business loans in various regional portfolios. We would expect the banks curtail buybacks and eliminate dividends. This is a move that we think is prudent in light of the high degree of uncertainty.

One is also able to avail themselves of the severely stressed scenario of the Fed's annual CCAR process.[9] From these tests, we can see that the losses in banks in a severely curtailed or bad economic environment would largely amount to earnings events over one to two years and would not impair capital. We think there are some things about this downturn that may be worse than the CCAR process, specifically around unemployment, and we think there are other things that may be better, and those specifically would be around counterparty failure and capital market losses. And so net-net, we would guess that the impact of this crisis on the banks is an earnings event, not a capital event. Currently, the banks trade at a discount to tangible book value and somewhere between 5-7 times normal earnings power over time.

(00:24:00)

There are some questions regarding financials and low level of interest rates. I would observe two things on that. A low level of interest rates permanently maintained, would likely reduce the return on tangible equity that many banks earn. Simultaneously, if one were to assume that

[9] The Comprehensive Capital Analysis and Review (CCAR) is an annual exercise by the Federal Reserve to ensure that institutions have well-defined and forward-looking capital planning processes that account for their unique risks

low level of interest rates was static over a long period of time, the value of those lower level of earnings would be mathematically greater than the level of higher earnings with a higher interest rate.

Perhaps you could think about it as the following: at a four or five percent interest rate, banks might earn 15-20% on tangible equity, and at a 0-1% interest rate, banks may earn a nine to ten percent on tangible equity. If interest rates are at roughly zero or one, the spread to those rates at 9-10 is roughly the same as it would be at the higher return. Hence the underlying assets, we think, would likely be similarly valued.

Moving on, we've gotten a number of questions on AIG, largely around why has it been hit so hard. We will admit to being somewhat perplexed with why insurance companies have sold off as badly as they have, given that the thrust of this crisis does not appear to be focused on those companies.

AIG is a combination of life and P&C business.[10] The life business has more credit exposure and is hurt by lower rates. At AIG, the life business is less than 40 percent of the total of the company. AIG has sold

and sufficient capital to continue operations through times of economic and financial stress.

[10] P&C = Property and Casualty

off more than its life insurance peers despite having over 60 percent of the company in the P&C side. We do not believe that the COVID event or rolling crisis is likely to lead to large insured losses. The largest loss that we have heard about to date is the cancellation of the Olympic Games, and this is clearly a quarter earnings impact and not a capital issue for the P&C business. I would also point out that reduced activity will likely have a positive impact on the claims experience of the P&C industry over the course of this year.

Moving on to Jefferies. Yesterday Jefferies announced first quarter results. That quarter ended prior to the COVID events, but it was a record quarter. Those results also provided a great deal of comfort on the company's balance sheets through the wild swings of March. The company has been buying back stock, reauthorizing additional share buyback yesterday, has over $1.9 billion of liquidity at the holding company, and less than a dollar of book value exposed to sectors such as oil/gas and restaurants/retail that are particularly likely to be impacted by COVID.

So that was a brief summary on the financial holdings.

If we move on to the aerospace exposure, this is an industry that we've talked about a number of times at Investor Day and on conference calls; a very attractive business [we believe], and we have always been somewhat concerned about the new build cycle. And we would have, over time, favored companies with a heavy aftermarket exposure, companies that are sole-sourced, and competitively differentiated. Our low cases did not consider a closing or lockup of global travel or a material decline in average seat miles, an experience that has not been recorded in the last 30 or 40 years.

Over time, we are confident that air travel will return, and that growth in this industry will reemerge. That said, there have clearly been material impacts to these businesses' earnings power over the next few years, as air travel resets lower, and spares and parts are not needed on planes that are not flying.

Over the last month, we have put a little bit over two percent of the portfolio into businesses in the travel space. This includes Bookings, Marriott, and Air Canada, each of whom we believe are incredibly well-financed, and have a long runway to make it through a temporary shutdown or lockup of travel and leisure spend. We have also added positions in Wabtec, NXPI, DuPont IFF Stub, GEA, Richemont, a number of Asian holding companies, some corporate government situations in Japan, and two high-yield issues.

(00:29:00)

If we now move on to the high-yield bond or credit market, we had very low exposure coming in. We have taken marks on our holdings. Each of our holdings were and continue to be subject to transactions that are still expected to close later this year. Those transactions have not been cancelled, but the risk of closure, or the risk of deal failure, has gone up considerably considering COVID.

Last week, we reoriented a few members of the team to focus on and begin combing through debt. This is in response to the significant widening in spreads. I would like to point out that much of the market price movements in the high-grade bond market seem to have reversed themselves after two days of somewhat extreme selling. In the high-yield market, however, the distress has increased from $250 billion to $1 trillion over the last week.[11] We expect that the distress in high-yield market will be a fertile area of opportunity over the next number of months.

And with that, I would like to turn it back to Steven for question and answer.

(00:30:19)

Steven: Before going to the questions – thanks Brian, very much; hopefully everybody appreciates that level of granularity. Before going to the questions that have been sent in advance, I want to apologize in advance for any awkwardness that might arise as we try to hand off to each other and address the different questions. We tried to address most of the questions in the prepared remarks. Some questions that were asked were on topics that we did not feel we were best qualified to answer. These might be questions that pertain to companies or industries who we haven't done robust research. As a reminder, certain businesses in which we are currently transacting may not be addressed.

If we inadvertently miss a question, or we did not answer the questions robustly as you would have preferred, please reach out to our client relations team directly, or to Ryan Leggio. Ryan's email is

[11] Source: Bloomberg.com, "Distressed Debt Balloons to Almost $1 Trillion, Nears 2008 Peak", March 25, 2020.

rleggio@fpa.com, which is R L E G G I O at fpa.com. You will also find his contact information and the other members of our team on our website at fpa.com.

I'll turn to the remaining questions now that weren't answered as robustly in the preamble, or addressed at all. There was a question – are you thinking about tax loss harvesting? At the moment, tax loss harvesting is not a consideration. However, we are very tax-conscious, and over the course of the year, that will be a consideration. At the moment, though, as I'm sure you can appreciate, our focus is entirely on setting ourselves for future performance.

Combining two questions: how are we handling the range of outcomes for businesses that are being wider now than they were a year ago; and how are you insulating our Fund from the current market uncertainty?

I'm turning that over to Mark.

(00:32:23)

Mark: Thanks, Steven. So many of our regular listeners are aware from prior calls that we often utilize a low-base, high-scenario analysis when examining potential investments.

Steven: Mark? Let me just interject one second. Can you just hit mute on that Teams? It's echoing on everybody's line. Thank you.

Mark: I think I am muted.

Steven: Perfect.

Mark: Great. I'll start over, just in case anyone missed that. So, many of our regular listeners are aware from prior calls that we often utilize a low-base, high-scenario analysis when examining potential investment opportunities. That said, the current environment is well [outside of what we have historically modeled] even our low cases.

As William Churchill [John Maynard Keynes] said, "When the facts change, I change my mind." So we are rapidly re-underwriting the analysis on each name in the portfolio, which includes speaking directly to management teams across the world to understand each company's access to cash and ability to flex their respective cost structures in response to lower than anticipated levels of demand.

It's also important to not forget that chaos creates opportunity. As per our contrarian namesake, we are not shying away from areas of the market that are paralyzed by uncertainty. As Brian mentioned, you have heard that we have begun to deploy capital to the travel industry. Now the largest of these positions, is Booking, a name that we were already familiar with prior to COVID-19 due to our extensive research on the industry some years back. At the time when we originally researched the OTA,[12] we purchased Expedia, which we subsequently sold. However, we actually favored Booking from a qualitative perspective, but we were uncomfortable paying a premium multiple, hence our decision to go with Expedia.

Roll forward to Q1 2020, and one does not have to give up anything in terms of quality to purchase what we think of as quality companies. Now in the case of Booking, we made purchases at what we believe are low double-digit multiples of enterprise-value-to-trailing-earnings (or EV/Earnings).[13] However, we did not enter into this position simply because we were attracted to a low multiple of our estimate of trailing or normalized earnings. Instead, we were attracted to Booking because the company is sitting in a net cash position, which is further complemented by several billion dollars of investments in various

[12] OTA = Online travel agencies.
[13] *Enterprise value (EV)* is calculated as the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents. *Minority Interest* is defined as the portion of subsidiaries that is held by the minority shareholders. *EBITDA is earnings before interest, taxes, depreciation, and amortization.* The EV multiple is a ratio used to determine the value of a company.

securities, all of which we believe to be more than sufficient to ensure that Booking emerges from the other side in a stronger position than its weakly financed peers.

Lastly, we should also note that that Booking had a positive profitability in 2006 when revenue was one-fifteenth of what it is today. With a profit and loss statement, where the largest cost buckets are variable expenses, we actually expect Booking to be able to flex down their expense structure with a lag to protect profitability once sufficient time has passed. Regardless of what the new normal looks like, we are highly confident that Booking will emerge as a profitable company, cash-generative, with excellent stewards of capital at the helm, and we look forward to how the company adapts to this environment and [we think] ultimately thrives when we emerge from COVID.

Steven?

(00:35:49)

Steven: Thanks Mark. There is a question about where are valuations today versus 2008. On a Shiller P/E basis – I'll look at it in a couple of different ways. On a Shiller P/E basis, the cyclically adjusted P/E where earnings are smoothed over ten years, equities traded about 24 times, though prices are changing almost hourly. That's [about] where they were in the first half of 2008, but significantly higher than where they bottomed at 13 times in the first quarter of 2009. [14]

The current P/E is anyone's guess because earnings are severely impaired at the moment for most companies. But looking at the market so broadly hides the many companies that are trading at much lower multiples than the market based on normalized earnings. And those are some of the companies that we have currently been focusing on, and doing our research and purchasing.

Why is that? I grouped some questions together by theme. It's a question that relates to Crescent and benchmarks and why hasn't the Balanced Fund held up better? The Crescent Fund is an unusual fund. And it's not easily categorized. The Fund's intent is to generate equity [-like] rates of return, while avoiding permanent impairment to capital. We have accomplished this over time using many tools in our tool chest, as we seek opportunities across the capital structure of both debt and equity.

[14] P/E is price to earnings. The *Shiller P/E* or *CAPE* ratio is the cyclically adjusted P/E where earnings are smoothed over ten years. The Shiller P/E of approx. 24 times is as of March 25, 2020. The Shiller P/E was 24.2x as of June 30, 2008. The Q1 2009 Shiller P/E of approx. 13x is as of March 31, 2009.

Balanced Funds are generally different animals. On average, they invest 60 percent in stocks and 40 percent in balanced and high-grade bonds. High-grade bonds have never been nor will it ever be a focus of this portfolio. In this recent drawdown period, high-grade bonds have held up much better than stocks and high-yield bonds, which has certainly benefited balanced funds.

Over the past decade, these balanced funds have further benefited by a decline in interest rates that have fallen to levels that humanity has never seen. Mathematically, the future just can't possibly be as bright for these funds. A 10-year Treasury that was five percent is now less than one percent. For the future to be as bright over the next decade for that bond portion of the portfolio, the 10-year would have to fall to a negative three percent. That would be an uncomfortable bet to make.

(00:38:00)

I would also point out that we invest globally. Foreign stocks have been underperforming US stocks for some years now. We like the foreign companies that we hold in our portfolio, and we don’t think that [underperformance] will be the case forever. We therefore think our portfolio shapes up very well by comparison to a typical balanced fund, as we look out over the next decade.

There are number of other questions that relates to bonds, investment grade, high-yield, and distressed. I'm going to try to hit on some of the key points in my answer.

The high-yield corporate has always been a part of Crescent, particularly in periods of distress, and that will be the case in the future. And some of this builds up on what Brian has already commented on. The decisions on what we own will be a function of yield and liquidity of the issue. Although we operate with far more breadth than a typical fund, we do not have the benefit of having permanent capital. We are going to make sure that the positions are sized in such a way as to accommodate a host of outcomes. Our focus will be on owning [what we believe to be] the better businesses with poor balance sheets rather than the mediocre businesses with a less certain future, as we look at their debt.

Corporate finance firms are rapidly re-orienting themselves to function as restructuring firms, as their phones ring off the hook with companies calling to figure out how to protect their businesses. We don't know what kind of opportunity this will turn into, but as Brian pointed out, we are actively devoting resources to uncover opportunities, more so than we have in many, many years.

(00:39:21)

There was a question about – a number of questions have been posed about current cash, projected cash, and what is really being asked is how an investor will get in the future, and what does ringing the bell look like? That was a phrase I had used earlier. I wasn't sure who was going to answer that on our team? It was Brian or Mark.

Mark: This is Mark. I will take a stab at it. When you think about cash, we have talked about this on prior calls when cash was at much higher levels, and just as we said then, the Fund doesn't target a specific cash level in any environment. What we do target is making investments on a bottoms-up analysis basis, where we think the risk/reward is highly in our favor.

As it relates to the portfolio and seeing cash decline and our invested portion of our portfolio increased over the past several weeks, you can imagine that we're seeing ideas that are tilted in our favor and we are deploying capital appropriately. We don't know how long we will continue to find ideas, how large the ideas we find are going to be, and how many of them we will locate. But we are actively searching, day and night, across the world, whether it be in equities, credit, for ideas that we think offer a hugely attractive tilt as it relates to risk/reward.

Some of our additions might be to existing names in the portfolio. Many of them, as you can see in the 14 additions, I believe, in Q1 have been to new names. And so we look forward to when we get to chat with you after the first half call to discuss some of these names in general, and if the current environment uncertainty continues, we can expect that we will get even more invested than we are today.

I will turn it back to Steven.

(00:41:11)

Steven: We had a number of questions that talk about flows and liquidity. There have been some outflows in the Fund, but nothing that's been unmanageable. We have almost 40 percent in cash, and the balance of the portfolio is largely in bigger liquid securities.

There were some hard questions about the economy and policy decisions. We don't want to go and position ourselves as any kind of expert, certainly. And we addressed some of what could happen in Q2 in our prepared remarks. But the one question that jumps out a bit that was a little bit different that it wasn't addressed in the remarks is the risk of a major policy mistake, as that was the main cause of the Great Depression.

One factor during the Great Depression was that money remained tight. But with the unprecedented action with the Fed and US Treasury, both in terms of size and speed, whatever mistakes that are being made are of a different variety that is more likely to avoid a depression, while at the same time possibly creating inflation and making cash far less valuable.

Those address all of the questions that we had on the call. We appreciate you taking the time to spend with us today and listening to the answers to your questions. We are more excited about our current portfolio than we have been in years. That excitement is part of hearing the view to the future, and that's the way we have always invested. We don't know what's going to happen in the coming weeks, or even year. The world is uncertain, but it is a mistake to think that isn't always the case. Uncertainty was not priced in before this downtown, but it is currently, and that makes being invested today more advantageous than it was just a month ago, assuming of course, that one has that long-term view and an ability to hold over an extended period.

All of us at FPA join me in wishing you good health in the weeks to come. And again, thank you.

Ryan, do you have anything in closing?

(00:43:16)

Ryan: Any other comments from the team? All right, with that, we are going to conclude today's call. I want to mention just a few things before we sign off. First of all, this is a very unusual – Brian, I'm sorry, are you on the phone?

First of all, this is a very unusual time, and so unfortunately there weren't any slides available. We have updated some information on the FPA Crescent portion of the website, and so you will see that there.

The second point I think we all wanted to make was we are more than happy to go into some of the examples that Brian, Mark, and Steve talked about at a later date, so please look forward to that in future webcasts to come.

Thanks again, everyone, for joining us today on this special webcast. And we now turn it over to the system moderator for closing comments and disclosures.

(00:44:17)

Moderator: Thank you for your participation in today's webcast. We invite you, your colleagues, and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website within a few days at FPA.com. We urge you to visit the website for additional information on the Fund such as complete portfolio holdings, historical returns, and after-tax returns.

Following today's webcast, you will have the opportunity to provide your feedback and submit any comments or suggestions. We encourage you to complete this portion of the webcast. We know your time is valuable, and we do appreciate and review all of your comments.

Please visit FPA.com for future webcast information, including replays. We will post the date and time of the prospective calls towards the end of each current quarter and expect the calls to be held three to four weeks following each quarter end.

If you did not receive an invitation via email for today's webcast and would like to receive them, please email us at crm@fpa.com. We hope that our quarterly commentaries, webcasts, and special commentaries will continue to keep you appropriately informed on the strategy.

We do want to make sure you understand that the views expressed on this call are as of today and are subject to change based on market or/and other conditions. These views may differ from other portfolio managers and analysts of the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

Any mention of individual securities or sectors should not be construed as a recommendation to purchase or sell such securities. **Past performance is not a guarantee of future results.**

Any statistics have been obtained from sources believed to be reliable but the accuracy and completeness cannot be guaranteed.

You should consider the Fund's investment objectives, risks and charges, and expenses carefully before you invest.

The prospectus details the Fund's objectives and policies, 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. FPA funds are offered by UMB Distribution Services, LLC.

(00:46:49)

Investment, including investments in mutual funds, carries risk, and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issues, political or regulatory markets, or economic developments.

Please visit www.fpa.com for principal risk of investment in the funds. Please read the prospectus carefully before investing, as it explains the risk associated with investing in fixed-income mutual funds.

The FPA funds are offered by UMB Distribution Services.

This concludes today's call. Thank you and enjoy the rest of your day.