



# FPA Crescent Fund

## Fourth Quarter 2018 Update

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.

### Annualized Total Returns

#### Trailing Performance (%)

As of Date: 12/31/18	Since 6/2/93*	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTR	Market Cycle Performance	
										3/25/00-10/9/07	10/10/07-12/31/18
FPA Crescent Fund	9.62	8.08	6.94	8.90	3.31	4.05	-7.43	-7.43	-10.52	14.70	5.56
S&P 500	9.04	5.62	7.77	13.12	8.49	9.26	-4.38	-4.38	-13.52	2.00	6.54
MSCI ACWI	-	-	-	-	4.26	6.60	-9.42	-9.42	-12.75	-	2.84
60% S&P500/40% BBgBarc US Agg	7.74	5.48	6.44	9.42	6.24	6.50	-2.35	-2.35	-7.56	3.97	5.75
CPI**	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.75	NA

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. 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.

\*\* CPI performance not yet available due to lag in data release date.

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, 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.**

## Activity:<sup>1</sup>

- Added new long equity positions in Glencore (GLEN) and Signature Bank (SBNY). In fixed income, we purchased a General Electric (GE) 5% perpetual bond and increased our Puerto Rico municipal bond exposure by purchasing sales tax revenue bonds. We also disclosed<sup>2</sup> our long-equity position in Naver (NHNCF).
- Increased our long equity exposure in Mohawk (MHK), Nexon (NEXOF), Royal Bank of Scotland (RBS), and Nexeo (NXEO).
- Decreased our long equity exposure in Aon (AON), Expedia (EXPE), and Oracle (ORCL). Also decreased short positions in Volkswagen (VOW3) and Utilities Select Sector SPDR Fund ETF (XLU) related to pair trades with Porsche (POAHY) and PG&E (PCG), respectively. We also decreased the size of the Naspers/Tencent pair trade.
- Closed our long equity positions in American Express (AXP), Esterline Technologies (ESL), Mondelez International (MDLZ), Thermo Fisher Scientific (TMO). Closed short positions in Alibaba (BABA) and Line (LN) related to pair trades with Altaba (AABA) and Naver (NHNCF), respectively. Our Navistar bond matured and we exited our fixed income position in Bombardier above par. We also exited our remaining commercial real estate loans as the bonds matured.

## Contributors and Detractors:<sup>3</sup>

Contributors	Performance Contribution	Percent of Portfolio	Detractors	Performance Contribution	Percent of Portfolio
<b>Q4 2018</b>					
Esterline Technologies	0.42%	0.0%	American International Group	-0.76%	3.2%
Broadcom	0.15%	2.6%	Baidu	-0.74%	2.1%
CMS Interest Rate Caps	0.14%	0.5%	Arconic	-0.64%	2.3%
iShares Russell 2000 ETF (short)	0.11%	0.0%	Citigroup	-0.63%	2.0%
Naspers/Tencent pair trade	0.06%	1.8%	United Technologies	-0.59%	2.2%
	<b>0.88%</b>	<b>4.9%</b>		<b>-3.36%</b>	<b>11.9%</b>
<b>2018</b>					
Esterline Technologies	0.66%	0.0%	American International Group	-1.02%	3.2%
Puerto Rico Municipal Bonds	0.58%	2.5%	Arconic	-0.97%	2.3%
Microsoft	0.43%	1.7%	Jefferies	-0.79%	2.1%
Cisco Systems	0.41%	0.0%	Baidu	-0.74%	2.1%
Broadcom	0.37%	2.6%	Citigroup	-0.67%	2.0%
	<b>2.45%</b>	<b>6.7%</b>		<b>-4.19%</b>	<b>11.8%</b>

<sup>1</sup> The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. It should not be assumed that an investment in the securities listed was or will be profitable. Increases and decreases represent securities whose positions changed by at least 25% over the period and represent greater than 0.50% of the portfolio. **Past performance is no guarantee, nor is it indicative, of future results.**

<sup>2</sup> The U.S. Securities and Exchange Commission allows a fund to not disclose publicly up to 5% of its total net assets (including shorts). Securities cannot be undisclosed for more than one year, based on holding period.

<sup>3</sup> Reflects the top contributors and top detractors to the Fund's performance based on preliminary contribution to return for the quarter and trailing twelve months. 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 [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.**

## Positioning and Outlook:

Risk Asset	Q4 2018	Q3 2018	Q4 2017
Common stock, long	69.4%	71.2%	67.2%
Common stock, short	-3.2%	-9.0%	-8.7%
Credit	4.7%	3.8%	4.0%
Other	1.8%	1.3%	0.7%
Exposure, Net	72.7%	67.3%	63.3%
Cash	27.4%	32.7%	36.7%
No. of Long Equity Positions	50	50	43

- We were able to increase our net risk exposure by approximately 1000 bps during 2018 because of increased volatility in our portfolio holdings and global equity markets. Many of our holdings are now trading at multi-year valuation lows based on various measures.
- The Fund's top three sectors are financials, communication services, and information technology, which comprise 43% of the portfolio.
- With volatility returning to the market, we continue to search for what we believe to be high quality, value opportunities for inclusion in the portfolio, while remaining mindful of our long-term focus of limiting the permanent impairment of capital.
- We still view high-yield bonds as unattractive given sub-par yields and spreads to treasuries as well as weak covenants.

## Important Disclosures

This update is for informational and discussion purposes only and does not constitute, and should not be construed as, an offer or solicitation for the purchase or sale with respect to any securities, products or services discussed, and neither does it provide investment advice. Any such offer or solicitation shall only be made pursuant to the Fund's Prospectus, which supersedes the information contained herein in its entirety. This presentation does not constitute an investment management agreement or offering circular.

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, 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; these risks may be heightened 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 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.

Net risk exposure refers to the percentage of the portfolio exposed to Risk Assets.

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.

As of 12/31/2018, the securities mentioned and corresponding position sizes were as follows: General Electric (GE) 0.2%; Glencore (GLEN) 1.3%; Signature Bank (SBNY) 0.6%; Naver (NHNCF) 0.5%; Mohawk (MHK) 1.4%; Nexon (NEXOF) 0.6%; Royal Bank of Scotland (RBS) 1.0%; Nexeo (NXEO) 1.3%; Puerto Rico Municipal Bond 2.46%; Aon (AON) 1.5%; Expedia (EXPE) 0.9%; Oracle (ORCL) 0.8%; Select Sector SPDR Fund ETF (XLU) -0.4%; Porsche (POAHY) 0.7%; PG&E (PCG) 0.6%; Naspers/Tencent pair trade 1.8%.

#### Index 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 **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.

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

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