Investor Day 2018 - Prepared Remarks

FPA Crescent Fund

Philosophy & Strategy

Without boundaries, the world is just too large, and we would spend too much time thinking about things that won't make the portfolio money. There are more things that look good than are good.

I like to think of setting strategy for the portfolio in terms of designing a golf course, with fairways and the rough to define the borders or boundaries. When it comes to our portfolio, we've designed our own little custom golf course, where our best opportunities lie in the center of the fairways. We may consider investments that fall in the rough, but they will generally be smaller positions -- and we'll consider investing in nothing that falls out-of-bounds.

Having a clear view of in- and out-of-bounds allows us to allocate our resources to their highest and best use.

We want attractive risk/rewards. We want an understanding of what a company's business model might look like in the future. That keeps us away from short product life-cycle companies and steers us towards companies that promise what we believe will be at least as good a business in the future. And to opportunities where the upside exceeds the downside.

Our work hopefully leads us to the truth -- and we're equally hopeful that others perceive a different outcome. In that, lies the opportunity. We arbitrage perception and reality.

Rene Magritte, the Belgian surrealist artist, liked to challenge the perceptions of the observer. In Magritte's view, this is not a pipe because you cannot smoke it. This illustrates the challenge of differentiating perception and reality. As Magritte might dispassionately explain it, this is merely an image of a pipe. Therefore, it's just a work of art.

We similarly prefer to deal in the objective, the factual. This has led, and will hopefully continue to lead, to equity-like rates of return over the long-term, while avoiding permanent impairments of capital along the way.

We have a broad and flexible mandate that allows us to invest across asset classes and the capital structure in a variety of market caps, geographies and sectors.

We are benchmark agnostic. Not only might we have a stake in an industry two times a given benchmark, but there are also times that we will have no exposure at all to certain sectors, no matter their benchmark weight. This has allowed us to win by not losing.

Opportunity set

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2018

		Morningstar Fund Category			
Typical asset classes used to accomplish goal	FPA Crescent	Allocation – 50% to 70% Equity	World Allocation	World Stock	Long-Short Equity
U.S. Equities (All Cap)	✓	✓	✓	✓	✓
Developed Equities (All Cap)	✓		✓	✓	
Emerging Market Equities (All Cap)	✓		✓	✓	
Pair Trades/Stub Trades	✓				✓
High Yield Bonds (Global)	✓				
Distressed Debt (Global)	✓				
Investment Grade Bonds	✓	✓	✓		
Other Fixed Income (Preferred, convertible, etc.)	✓				
Shorting	✓				✓
Illiquids – typically up to 5% (Examples include subprime whole loans, farmland, Sears Canada private term loan)	✓				

Source: FPA, Morningstar

Crescent's opportunity set is unusually wide-ranging. We have far more tools at our disposal than other Morningstar Fund Categories that are typically considered broad, most of which do not invest in high-yield bonds, distressed debt, stub trades and periodic shorting or have exposure to less liquid securities.

Our absolute return focus compels us to think carefully about the risk/reward proposition and how much potential might be in a unit of assumed risk.

If the potential reward is dwarfed by too much risk, cash will build as a result – but as a byproduct of the bottom-up analysis of our research, not as a result of a top-down macro call.

To avoid unfortunate and unprofitable misperceptions, we work to understand our companies better than most. Understanding a business, its industry, and what can go wrong requires time spent reading, reading, reading, and reading some more.

We will never know everything, but we want to ask appropriate, thoughtful questions and not accept easy answers.

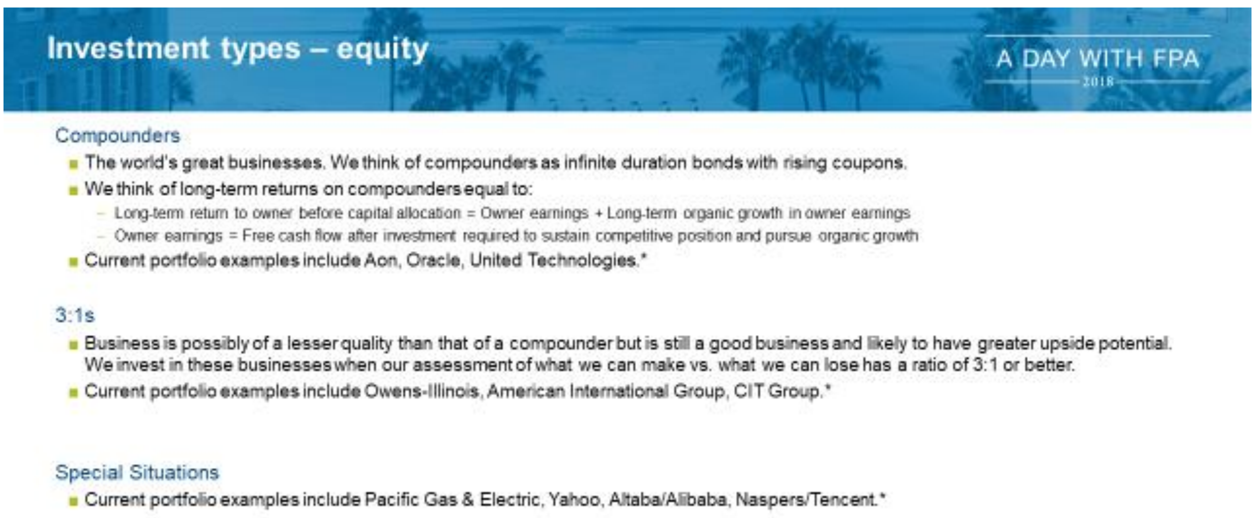
What seems easy might prove problematic later, as was the case with this enthusiastic individual as she unexpectedly received the desired response for every question she asked.

We patiently allow our investment process to unfold. It doesn't happen overnight. It takes time to reach a conclusion on what we'd like to own. Once that's done, we have to wait for the appropriate price. Each investment has its own biorhythm. And we sometimes wait quite some time for an investment to work out.

We have three broad categories for our equity investments.

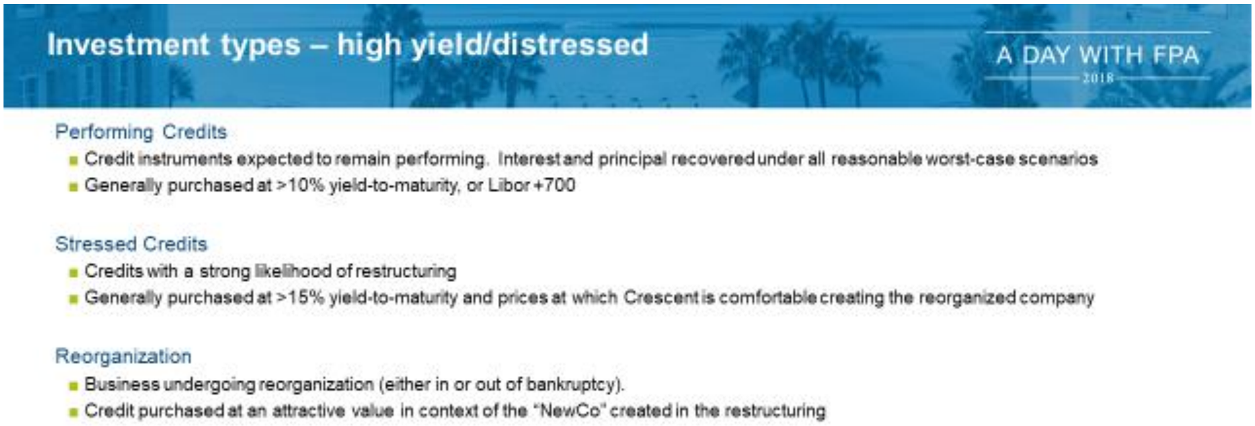
Compounders are those companies whose organic earnings we feel confident will be higher a decade hence. We think of them as infinite duration bonds with rising coupons.

3:1s are more commercial opportunities. Their stock is priced at a steep discount to its intrinsic value, but its moat isn't likely as wide or as deep as the higher quality businesses of the Compounders. Thus, these investments are more likely to have greater upside potential than the Compounders. We call them 3:1s because we only invest in them when we can make at least three times what we believe we could lose.



** Portfolio composition will change due to ongoing management of the Fund. References to specific securities or sectors should not be construed as recommendations by the Fund, its Advisor or Distributor. No recommendation is made herein with respect to the purchase or sale securities or sectors highlighted. It should not be assumed that any transaction in the future will be profitable.*

Special Situations are equity opportunities that don't fall into either of the other two buckets, including our stub, or rump, trades.



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We consider high yield bonds to have equity-like risk. As a class, they generally have more credit risk than interest rate risk. We have three broad categories for our corporate bond investments.

Performing Credits are those credit instruments that we expect to continue to perform and so we expect to receive all interest and principal under all reasonable worst-case scenarios.

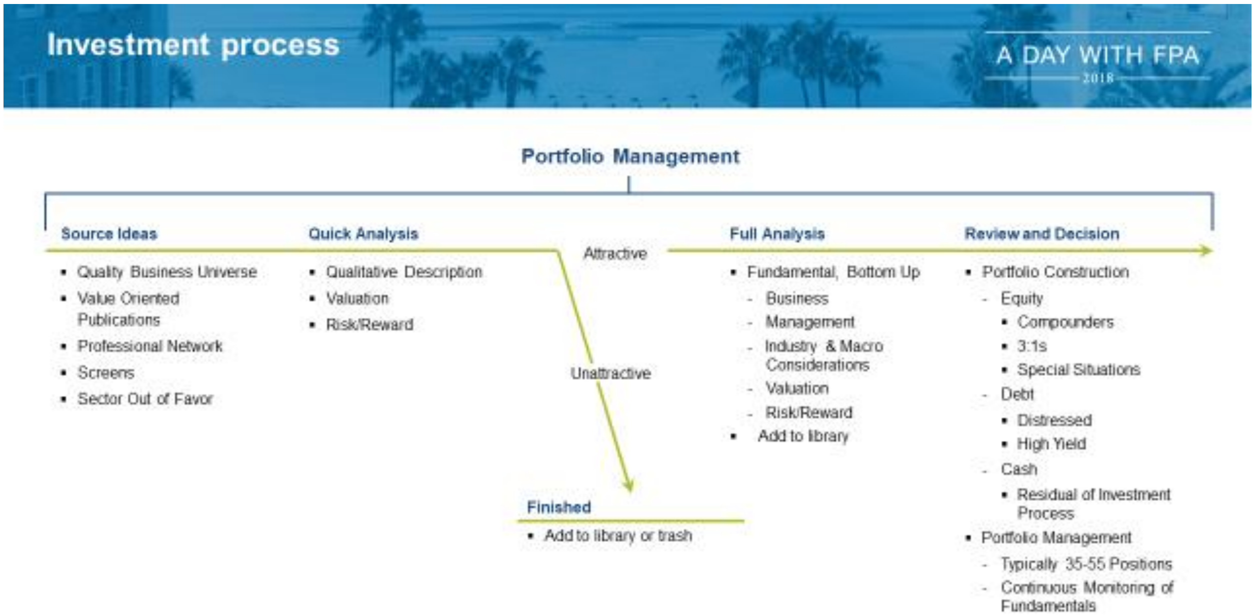
Our investment in performing credits generally increase as yields hit double digits.
Stressed credits are the bonds of companies that are likely to be restructured.

Not surprisingly, the hurdle rate for stressed credits is greater than that of performing credits. We would like to see mid-teens yields at a price where we are comfortable owning the whole company.

When we buy a reorganized credit, we expect to own the whole business at that price. There isn't a yield-to-maturity expectation.

The Fund's investment process begins with the sourcing of ideas, which we find through a variety of channels. Some ideas are found in out of favor sectors and companies, for instance, while others may come from an understanding of which businesses are best in class around the globe.

Once we have an idea, we conduct a quick analysis of the business – its qualitative attributes, valuation and risk/reward.



If the business falls outside our comfort zone, it ends up in the trash. If it's too expensive, then we put it on our library shelf. If it seems to fall on the fairway, we conduct a full analysis. If it makes the cut, it may end up in the portfolio as one of 35 to 55 holdings.

Once in the portfolio, we continue to monitor the fundamentals of an investment and, if needed, make changes based on new information, a better understanding or price.

We are a team of 11. Mark, Brian and I serve as co-portfolio managers.

We have terrific support from eight analysts on the team: Andrew August, Sean Korduner, Chris Lozano, Byron Sun, Alex Wong, Kyle Allen-Niesen, Anh-Tuan Bui, and Scott Cendrowski, who just joined us from Fortune Magazine in China. Scott will fulfill our team's investigative journalist role, aiding our understanding of businesses and industries by taking a purely qualitative approach through interviews with ex-employees, industry experts, etc.

"You are completely free to carry out whatever research you want, so long as you come to these conclusions."

Source: McLaud

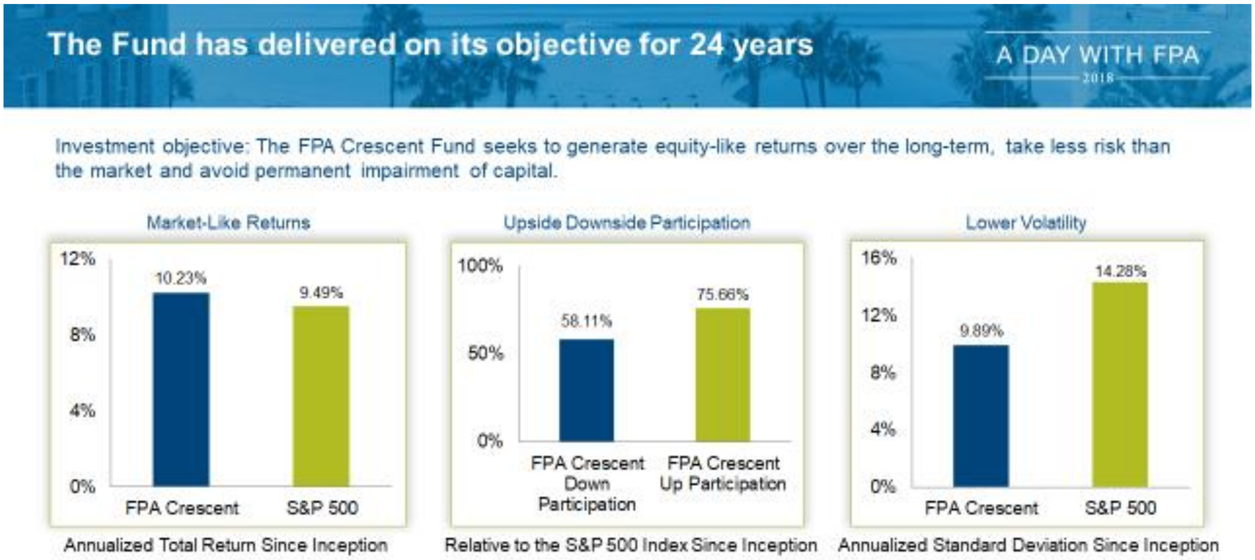
We ask our team to educate us on the necessary metrics to help us evaluate a company and its industry. We seek a strong understanding of what a business's cash flow could be over the next few years. We don't seek a buy or sell recommendation, preferring instead a strong understanding of the business.

Performance

Trailing Performance (%)										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
Risk Exposure	62.8									57.8	61.3

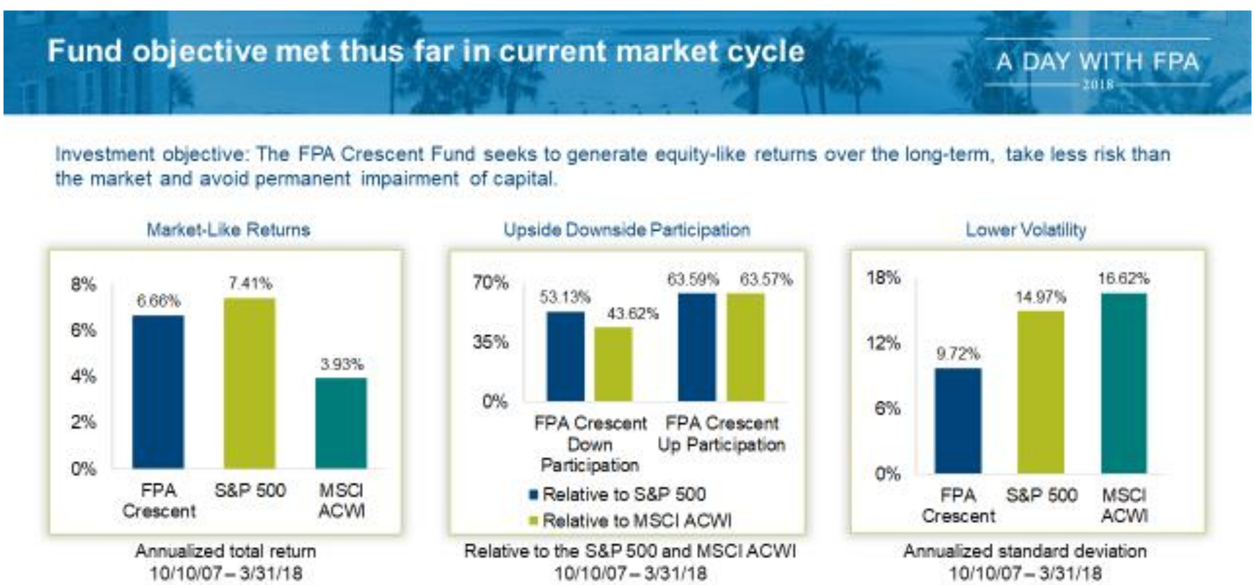
Annual Performance (%)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
FPA Crescent	10.39	10.25	-2.06	6.64	21.95	10.33	3.02	12.04	28.37	-20.55	6.84
S&P 500	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06	26.46	-37.00	5.49
MSCI ACWI	23.97	7.86	-2.36	4.16	22.80	16.13	-7.35	-	-	-	-
60% S&P500/40% BBgBarc US Agg	14.21	8.31	1.28	10.62	17.56	11.31	4.69	12.13	18.40	-22.06	6.22
CPI	2.03	2.10	0.67	0.69	1.55	1.78	3.06	1.44	2.81	-0.02	4.11

Performance is presented net of fees. Calculated using Morningstar Direct. Periods greater than one year are annualized.
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. Current month-end performance data may be obtained at www.fpafunds.com or by calling toll-free, 1-800-982-4372. A redemption fee of 2% will be imposed on redemptions within 90 days. Expense ratio as of most recent prospectus is 1.09%.
** Fund Inception: June, 2, 1993. Performance prior to March 1, 1996 reflects the historical performance of a predecessor fund. FPA assumed control of the predecessor fund on March 1, 1996. The Fund's objectives, policies, guidelines and restrictions are, in all material respects, equivalent to those of the predecessor fund.*
Comparison to the S&P 500, the MSCI ACWI Index, the 60%S&P500/40% BBgBarc US Agg Index and the CPI is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.
*** 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.*
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.
Please refer to the end of the presentation for important disclosures.



Source: Morningstar Direct. The inception date of the FPA Crescent Fund is June 2, 1993. Total returns and standard deviation as of March 31, 2018. Standard deviation calculation begins in the first full month of fund performance i.e. July 1993. Up and down participation relative to the S&P 500 as of March 31, 2018. Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.
Past performance is no guarantee of future results. Please refer to the back of this presentation for important disclosures.

We have exceeded the market's returns since inception, even as we've carried a 30 percent average cash balance and had just low 50s net exposure to stocks. Crescent historically has captured 76 percent of the upside in its holdings while absorbing a smaller 58 percent of the downside. A by-product of our investment strategy and process is that the Fund has delivered these returns with about 30 percent less volatility.



Source: Morningstar Direct. Market cycle Total returns and standard deviation as of March 31, 2018. Standard deviation calculation begins in the first full month of fund performance i.e. November 2007. Up and down participation relative to the S&P 500 and MSCI ACWI as of March 31, 2018. Comparison to the S&P 500 and MSCI ACWI are for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.
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In the current market cycle that began in 2007, Crescent has lagged the S&P 500 by 75 basis points but exceeded the MSCI ACWI by 2.7 percent. The Fund's upside participation has been lower in this market cycle, just 63.5 percent relative to the S&P and ACWI, less than what we've traditionally produced. We attribute that to the outperformance of growth stocks versus value stocks during this period. That said, Crescent's downside participation was lower as well, just 53.1 percent compared to the S&P and 43.6 percent compared to the ACWI. Crescent also demonstrated lower volatility in the current market cycle – lower by 35 percent than the S&P and lower by 41 percent than the ACWI.

5-year rolling returns by market type since inception

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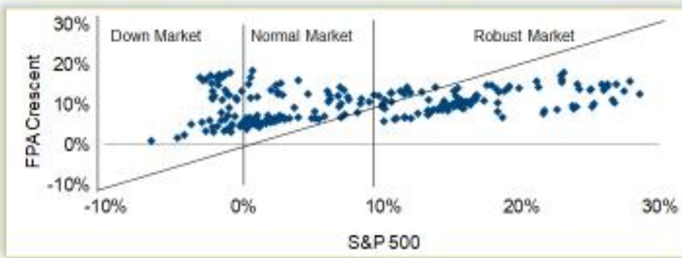


	Down market 5yr average return below 0%	Normal market 5yr average return 0-10%	Robust market 5yr average return above 10%
FPA Crescent	9.54%	8.80%	11.11%
S&P 500 average	-1.81%	3.38%	17.13%
Periods in which FPA	100%	97.47%	11.82%
	49 of 49	77 of 79	13 of 110

Source: Morningstar Direct. The chart illustrates the monthly five-year rolling average returns for the FPA Crescent Fund from July 1, 1993 (the first full month of performance since inception) through March 31, 2018 compared to the S&P 500 Index. The horizontal axis represents the five-year rolling average returns for the Index, and the vertical axis represents the Fund's five-year rolling average returns. The diagonal line illustrates the relative performance of the Fund vs. the Index. Points above the diagonal line indicate the Fund outperformed in that period, while points below the line indicate the Fund underperformed in that period. The table categorizes returns for three distinct market environments: a "down market" is defined as any period where the five-year rolling average return for the Index was less than 0%; a "normal market" is defined as any period where the five-year rolling average return for the Index was between 0-10%; and a "robust market" is defined as any period where the five-year rolling average return for the Index was greater than 10%. There were 237 five-year rolling average monthly periods between July 1, 1993 and March 31, 2018. Past performance is no guarantee of future results. Please refer to the end of the presentation for important disclosures.

Another way to look at our returns is to consider them in various markets -- down markets, normal markets and bull markets -- over rolling 5-year periods.

Given our philosophy of protecting capital, it should be no great surprise that Crescent has underperformed often in bull markets. The average annual underperformance in bull markets has been 6 percentage points.

In more normal markets, meaning those providing up to a 10 percent return, Crescent has outperformed in 97.5 percent of the 79 rolling 5-year periods. Crescent returned 8.7 percent compared to the S&P's 3.3 percent — or 5.4 percent of outperformance.

Where Crescent has really shined, however, is in down markets. The Fund has outperformed in all 49 down market periods by an average of 11.35 percent — 9.54 percent compared to a loss of -1.81 percent for the S&P 500.

Active stock selection drives differentiated returns

	2007 - Q1 2018 CAGR	2018 Q1	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
FPACX long equity	10.61%	-0.96%	21.07%	15.57%	-0.64%	13.64%	38.12%	17.77%	4.58%	22.48%	38.66%	-38.27%	11.47%
S&P 500	7.96%	-0.76%	21.83%	11.96%	1.38%	13.69%	32.39%	16.00%	2.11%	15.06%	26.46%	-37.00%	5.49%
Alpha vs. S&P 500	*2.66%*	*-0.20%*	*-0.76%*	*3.61%*	*-2.02%*	*-0.05%*	*5.73%*	*1.77%*	*2.47%*	*7.42%*	*12.20%*	*-1.27%*	*5.98%*
MSCI ACWI	5.06%	-0.96%	23.97%	7.86%	-2.36%	4.16%	22.80%	16.13%	-7.35%	12.67%	34.63%	-42.19%	11.66%
Alpha vs. MSCI ACWI	*5.55%*	*0.01%*	*-2.90%*	*7.71%*	*1.72%*	*9.48%*	*15.32%*	*1.64%*	*11.93%*	*9.81%*	*4.03%*	*3.92%*	*-0.19%*

Source: FPA. As of March 31, 2018. Comparison to the S&P 500 and the MSCI ACWI Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

A key component of our past success has been stock selection. This table shows how our mix of stocks has delivered in this market cycle versus the overall market.

The Fund has generated 2.75 percent of alpha compared to the S&P 500 since 2007 and 5.69 percent of alpha versus the MSCI ACWI.

Also note that we have delivered these returns in a lumpy fashion. We haven't outperformed every year. Over the 11 periods shown in the table, the S&P has beaten us four times and the MSCI has beaten us twice.

Importantly, though, when our stocks have underperformed, it has always been by far less than the amount by which they have outperformed.

Among the Fund's four periods of underperformance since 2007, the worst period was only 2 percent lower than the S&P 500 and the deficiency in 2014 was just five basis points. Outperformance has been far more substantial – 12.2 percent in 2009, 7 percent in 2010, 6 percent in 2007 and also in 2013.

Of the two periods when the Fund underperformed the MSCI, the worst was last year by 3 percent; the other time was a decade ago, when we were bested by a mere 19 basis points. The Fund's outperformance of the MSCI has been more dramatic: 15 percent in 2013, 12 percent in 2011, 10 percent in 2010, 9 percent in 2014 and 8 percent in 2016.

FPA Crescent vs. Index Funds Trailing Ten Years

Strategy	Fund Return	Investor Return	Standard Deviation	Max Drawdown
FPA Crescent	7.27%	7.14%	9.86%	-28.84%
Average S&P 500 Index Fund[1]	9.34%	6.38%	15.04%	-46.40%
MSCI World Index Fund[2]	3.66%	-0.45%	18.38%	-56.61%

FPA Crescent vs. Index Funds Trailing Ten Years
Returns through March 31, 2018
[1] Asset Weighted Average
[2] JNL/Mellon Capital MSCI World Index
Comparison to any other mutual fund or index is for illustrative purposes only. The FPA Crescent Fund does not include outperformance of any index or benchmark in its investment objectives. The MSCI ACWI ETF incepted March 26, 2008. As of December 31, 2017, trailing ten year performance was not available. Past performance is no guarantee of future results.

Crescent shareholders historically have done well buying and selling the Fund's shares, faring much better than a typical index fund shareholder whose return has been far less.

As much as we'd like to think that our thoughtful commentaries, speeches and conference calls have created an educated shareholder base, we realize some more visceral instincts and fears are also at play.

The table above was created with Morningstar data. (Morningstar doesn't have MSCI ACWI investor return data as far back as 2007, so we've used the MSCI World Index Fund as a proxy.)

Crescent's trailing 10-year performance compared to index fund peers is in the left column of the table. Crescent has underperformed the Vanguard 500 over the last decade but outperformed the MSCI ACWI.

"Investor Return" is to the right of "Fund Return" in the table. Investor return is a fund's dollar-weighted return. If the average shareholder buys LOW and sells HIGH, the investor return will be greater than the fund return. If the average shareholder buys HIGH and sells LOW – which is most typical – then their realized return – the "investor return" – will be less than the Fund Return.

The Crescent shareholder's investor return was 7.14 percent, almost equal to the fund's 7.27 percent return. Our Fund's shareholders acted rationally, buying low and selling high. Index fund shareholders acted less rationally and did the exact opposite of what one should do to successfully grow capital over time. Index fund shareholders bought high and sold low, and so the average S&P 500 Index Fund holder didn't do as well as the fund did, earning a lower 6.38 percent return. The average MSCI World Index Fund shareholder did worse still. That fund's return was 3.66 but its average investor return was negative, -0.45 percent.

Crescent's smaller drawdowns and lower volatility have likely been the primary driver of investor returns, which is a residual of our process and not derived intentionally. We continually emphasize that volatility isn't a useful measure of risk. Unfortunately, most investors – professionals, investment committees and individuals alike – respond to volatility. But that's like using a thermometer to measure the temperature outside.

The thermometer may tell you it's 70 degrees today, with an ocean breeze keeping things cool. It tells you absolutely nothing, however, about tomorrow, next week or even next year on this same date. It could be hotter or colder – by a lot or a little. It could rain.

When stocks are volatile, investors look for immediate protection, as if looking for a shady spot on a 100-degree afternoon. The typical investor is a more active seller when volatility is high. When stocks decline a lot, human nature is to panic and sell, but investors also sell when stock prices go up, even though they have no idea whether or not prices may rise even more.

Process

We've previously talked a lot about our process. We thought it would be good to review formally the results of that process and how it has affected the positioning of the portfolio.

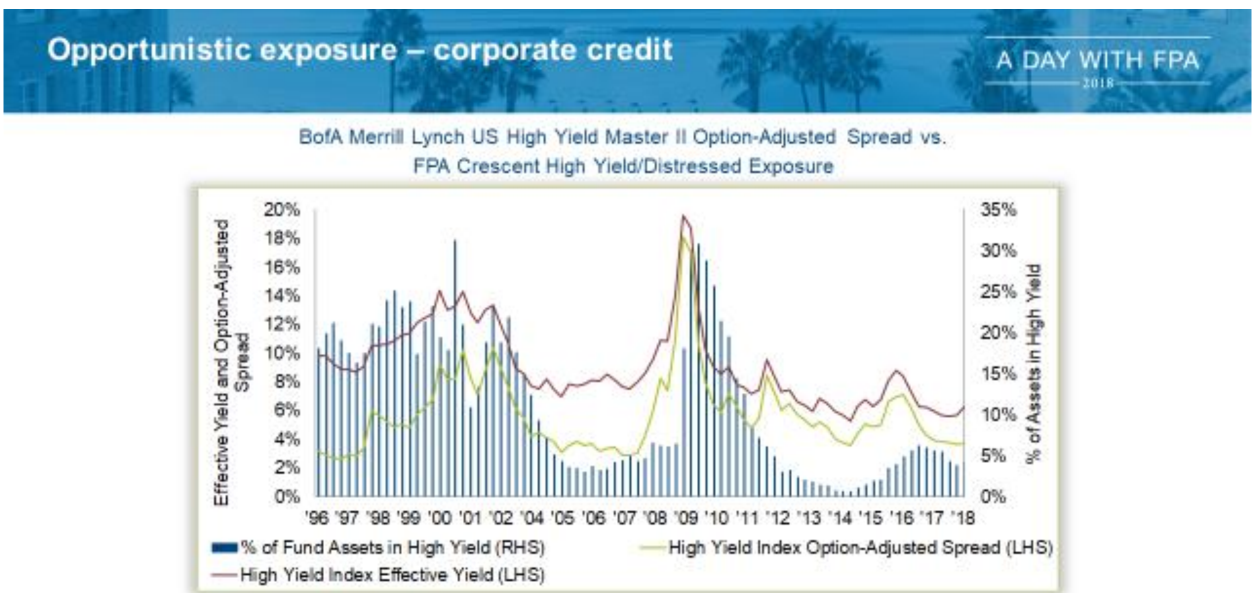
We like to lean into the wind, buying amid bad news when we think we will get an attractive return given the context of the risk we believe we're assuming, or buying the unloved, the undiscovered, or the misunderstood. Bad news creates natural sellers, and we help create a market for them to unload their shares.

If we've done our work correctly, eventually there should be good news and a better appreciation for the merits of a given investment. At that point, others are happy to take <u>our</u> shares from <u>us</u>.

The best illustration of that strategy is our on-again, off-again investment in corporate credit. The boom-bust nature of the high-yield cycle has allowed us to make money over and over again throughout our careers.

Bad news has caused certain tranches of debt to fall in price.

I've found terrific opportunities in the debt of many different companies over my career, like during the 1989 junk bond selloff when the bonds of companies like McCaw Cellular and RJR traded for more than 20 percent yields. In the 2001 to 2002 selloff, we picked up the debt of quality businesses like Tyco International. And during the Great Recession of 2008 to 2010, we bought the debt of a host of financial companies with good collateral, like American General Finance, AIG, CIT and Ford Motor Credit, when others thought they were toxic.



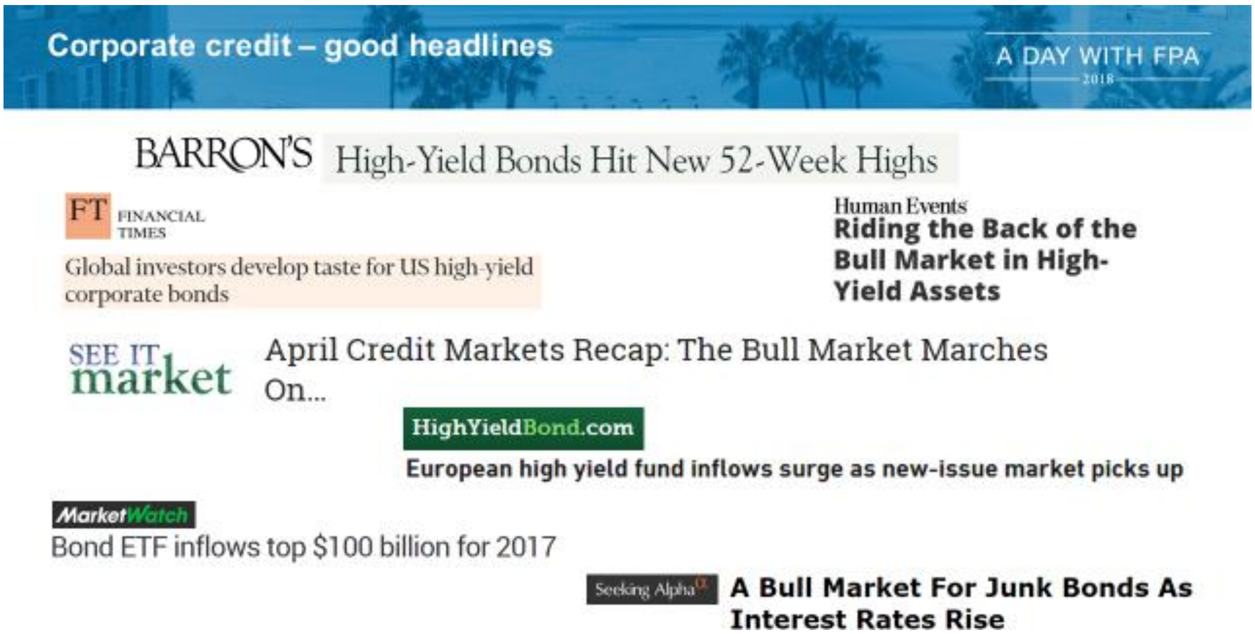
Source: FPA, Federal Reserve Bank of St. Louis, December 31, 2017. Data prior to March 31, 1996 are not available. Investment exposure for periods prior to March 31, 1996 may differ materially. Please refer to the end of the presentation for important disclosures.

At the same time, we don't feel it's necessary to always maintain investment in high yield. We'd rather allocate capital to the sector when yields and spread are high.

The blue bars in the chart above show that Crescent's exposure to high yield has risen and fallen a fair amount over the past two decades. The Fund's exposure is a function of opportunity, illustrated by the red and green lines on the chart.

The green line shows the spread of a high-yield investment compared to US government bonds of equivalent maturity. When spreads are wide, our exposure generally is high; when spreads are narrow, the fund's exposure is low.

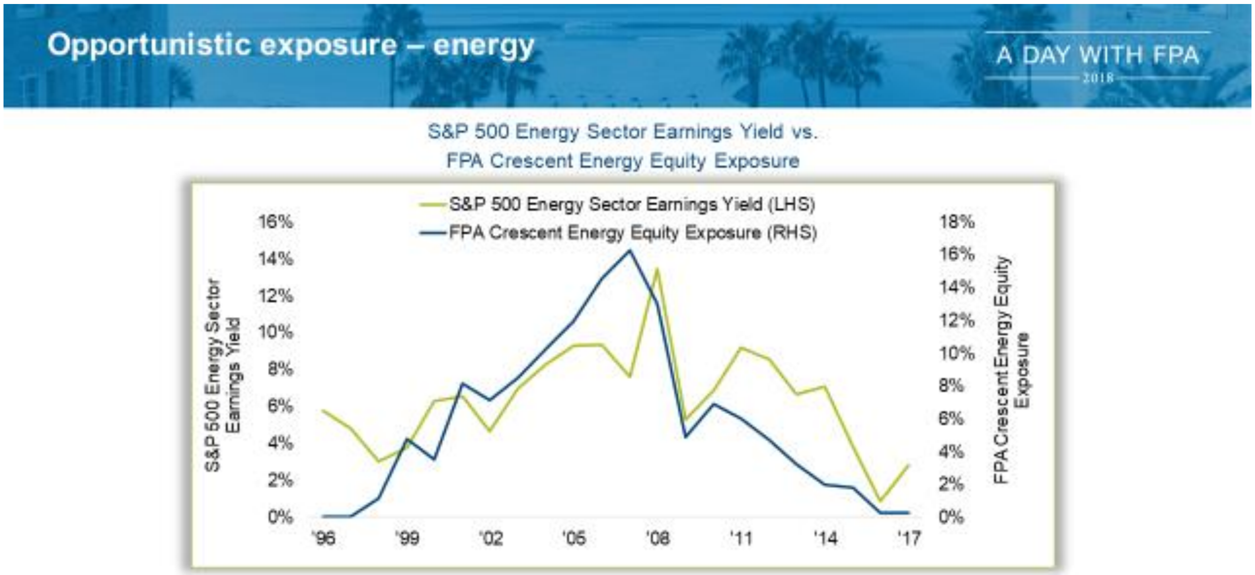
I say "generally" because there was a time when spreads were tight but the Fund had almost 12 percent high yield exposure. On the far left of the graph, you can see the green line reflects a narrow spread. The red line, however, shows that the average yield on a junk bond at that time was, unusually, in the double digits despite a tight spread.



I began discussing the high yield market with a few negative headlines. Now I offer you the positive news, which has lifted high-yield bond prices to levels that don't justify investment, in our opinion.

Sticking with headlines, there weren't many good ones in the late 1990s about the oil industry. The price of oil had declined from $26 to $10 per barrel as the high prices of the 1980s invited more investment in exploration and production, and the cartels failed to find common ground. As the Nineties wound down, oil was trading at $10 a barrel, and energy stocks traded at depressed prices, which persisted into the early 2000s.

Bad news drove prices of energy companies down to levels that set the stage for us to make a big investment in the energy sector.



As of December 31, 2017.
Source: FPA, Capital IQ, Bloomberg
Figures are presented at each year-end. Data prior to 2001 is not available. Exposure for periods prior to 2001 may differ materially. Fund sector exposure is net of short positions. Earnings yield = TTM Earnings Bloomberg Estimate / Price.
Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the back of the presentation for important disclosures.

The fortunes of the energy industry historically have moved in boom-and-bust cycles driven by poor capital allocation decisions, vacillating oil prices, and new technology.
The blue line in the chart illustrates Crescent's energy investment over the past 20 years. It started at zero in 1996, grew to 16 percent in 2007, and has sunk back to zero today.

The green line in the chart shows the earnings yield, or the inverse of the price-to-earnings ratio, plotted using trailing earnings for the last twelve months. The earnings yield in the energy sector was under 6 percent in 1996 when the Fund had no exposure.

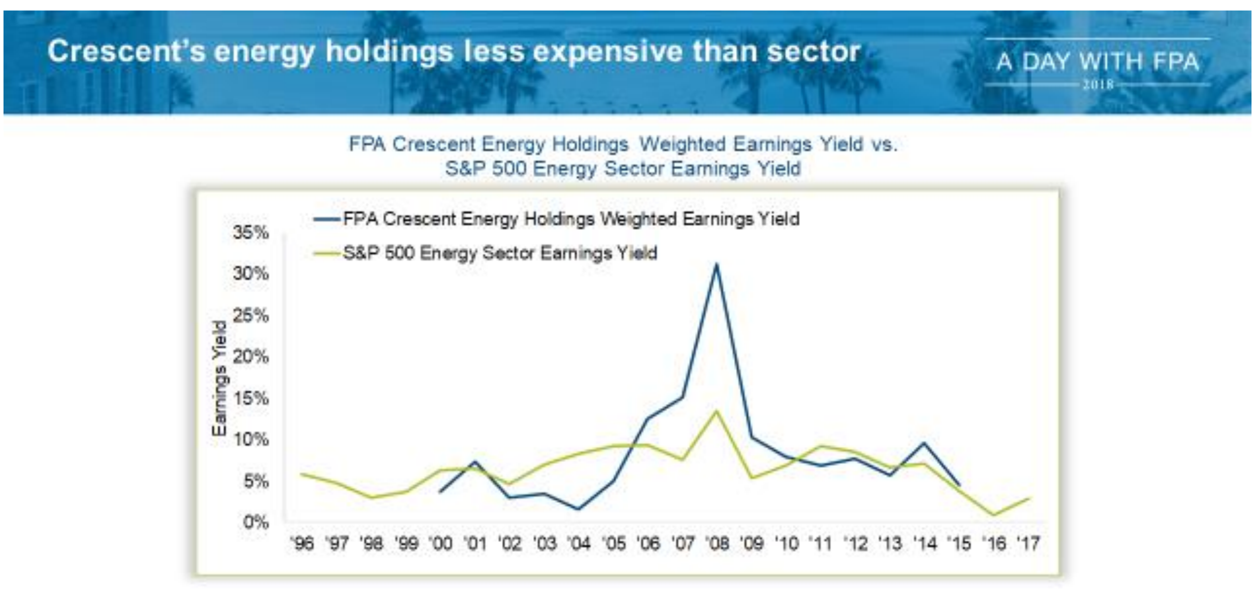
A high earnings yield means a stock or sector is inexpensive, at least at a particular moment in time. Typically, the Fund will have higher exposure to a sector when earnings yields are high and less exposure when they are low. Charts like this one and the high yield chart before it inform investment time and time again in the Crescent Fund.

So when our chart showed a high earnings yield in the energy sector, our investment in energy stocks increased in anticipation.

At one point or another, we owned shares in each of these companies.

We thought demand for oil would grow and that poor capital allocation decisions would be a thing of the past.

Drilling companies like Ensco and Rowan were particularly attractive, as their stocks were trading well below replacement cost.

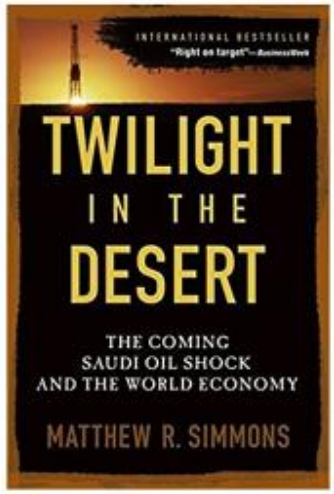


As of December 31, 2017.
Figures are presented at each year-end. Data prior to 1996 is not available. Earnings yield = TTM Earnings / Price.
Please refer to the back of the presentation for important disclosures.

On average, the energy company investments held by Crescent had a higher earnings yield than the S&P Energy Sector. The blue line in the chart above shows the earnings yield of Crescent's energy holdings and the green line reflects the yields of the S&P Energy sector.

Not everything we read proves useful

A DAY WITH FPA 2018



Published 2005

In the mid-2000s, I probably spent a little too much time reading books and articles like *Twilight in the Desert*, which discussed the concept of "peak oil," or the Hubbert peak.

The central tenet of the book was that we had found most of the oil that was available to find and that an oil shock was fast approaching. Our need for fuels would persist and even grow while supply dwindled, trends that would push oil prices to unheard of levels.

What I failed to recognize at the time was how much oil we would find right in our own backyard, unleashed by hydraulic fracking from tight geologic formations. Hydraulic fracking at its peak added 5mm new barrels of oil per day, doubling US production and increasing global production by more than 5 percent. No surprise, those expanding supplies had a dampening effect on the price of oil.

Not only was I incorrect about supplies of oil, I sadly also came to understand that managements were making bad capital allocation decisions, repeating the same dumb, capital destroying mistakes they made historically.

US oil production projection (circa 2011)

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As of December 31, 2011
Source: US Energy Information Administration (EIA)

We were aware that US oil production was ramping up before 2012, but few people recognized how much it would increase. The chart above, showing the US Energy Information Association's estimates of future US oil production, projected a peak of less than 7mm barrels per day. In fact, just a few years after the advent of hydraulic fracking, US production exceeded the peak set in 1970, growing to almost 10mm barrels per day.

Seeing the increased supply of oil and poor capital decisions, we sold the bulk of our energy holdings in advance of the subsequent energy bear market…

As of December 31, 2017.
Source: FPA, Capital IQ, Bloomberg, US Energy Information Administration (EIA)
Fund sector exposure is net of short positions.
Please refer to the back of the presentation for important disclosures.

….when oil declined 75 percent in two years, falling from more than $100 a barrel in 2014 to prices between $20 and $30 a barrel in 2016.

As of March 31, 2018.
Source: Federal Reserve Economic Data (FRED)
Please refer to the back of the presentation for important disclosures.

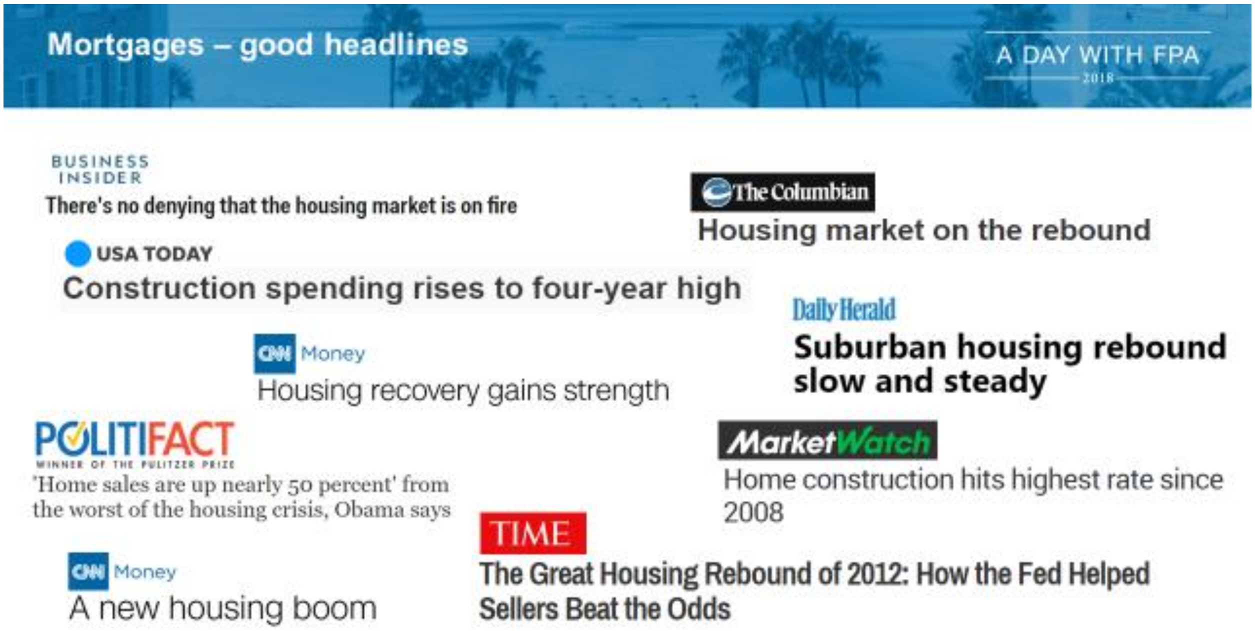
Before the real estate market unraveled in the Great Recession, we had never owned mortgages or mortgage-backed securities. In shareholder commentaries, we had noted the risks in the residential real estate market due to easy money and lax underwriting standards — all the more reason to stay away.

At that point, the prices of mortgage securities backed by single family homes were getting slammed, particularly those based on subprime mortgages. But we kept our eyes open for opportunity, eventually partnering with a third-party mortgage servicer and buying thousands of subprime, single family home loans from many brand name financial institutions. These loans had been originated between 2005 and 2007. We bought them at about 45 cents on the dollar, or a 55 percent discount to the value that was set when the loans were underwritten. To be sure, home prices also had declined, and the collateral was no longer worth values set by underwriters. But hypothetically, if the collateral was worth 25 percent less, then we were still paying just 60 cents on the dollar. That's an attractive margin of safety.

As of March 31, 2018.
Source: FPA, Bloomberg, Markit. Comparison to the Markit ABX AAA 2006-2 Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.
Subprime index represented by Markit ABX AAA CDSI S6-2 Index. Data unavailable prior to 2007.

Crescent's exposure to mortgage-backed securities went from zero to a few percent. We would have accumulated a larger position had the investment been more liquid and easier to build, but competitors also jumped into the market and were more willing to leverage their books and pay up.

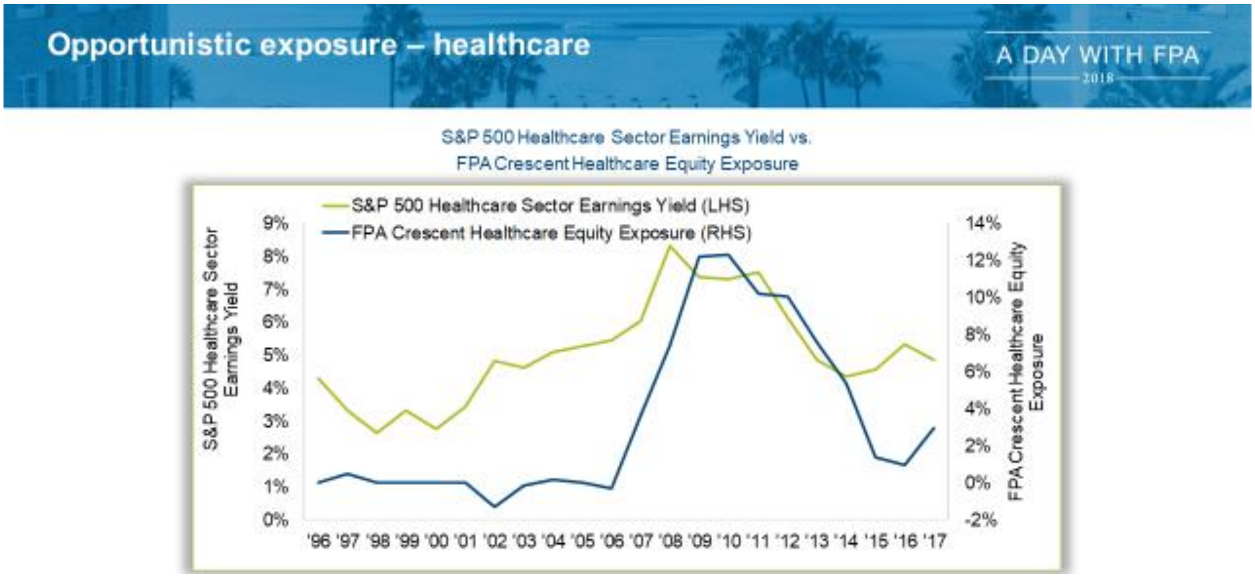
The chart above shows the Fund's exposure to whole mortgage loans – the blue line – plotted against a AAA tranche of subprime, residential mortgage-backed securities – the green line. The RMBS – the right axis of the chart – dropped in price from over $100 into the $40s. That kind of price movement excites us.



As the housing market rebounded, we achieved a rate of return in the teens, and our position trended back to zero.

Healthcare is another sector plagued by bad headlines late in the first decade of the new century as the conversation turned to universal healthcare, which materialized in 2010 as the Affordable Care Act, now largely known as Obamacare.

The fate of various components of the healthcare sector was unknown. Hospitals worried about what Medicare reimbursements might be and that their emergency rooms might be overrun by unprofitable patients. At the same time, hospitals were hopeful that their bad debt would go down under the new law. Drug companies and device makers worried about price controls, and many people thought a single payer option would be offered, putting health insurers out of business.



As of December 31, 2017.
Source: FPA, Capital IQ, Bloomberg
Figures are presented at each year-end. Data prior to 2001 is not available. Exposure for periods prior to 2001 may differ materially. Fund sector exposure is net of short positions. Earnings yield = TTM Earnings Bloomberg Estimate / Price.
Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the back of the presentation for important disclosures.

So healthcare stocks declined in 2008 and 2009, along with just about all other stocks, and they recovered far more slowly. As you can see there, the sector, represented by the green line, was cheap from 2008 to 2012. The earnings yield for healthcare stocks had been in the low single digits from the late Nineties into the early Aughts, but by the end of the decade, yields were lower by two-thirds.

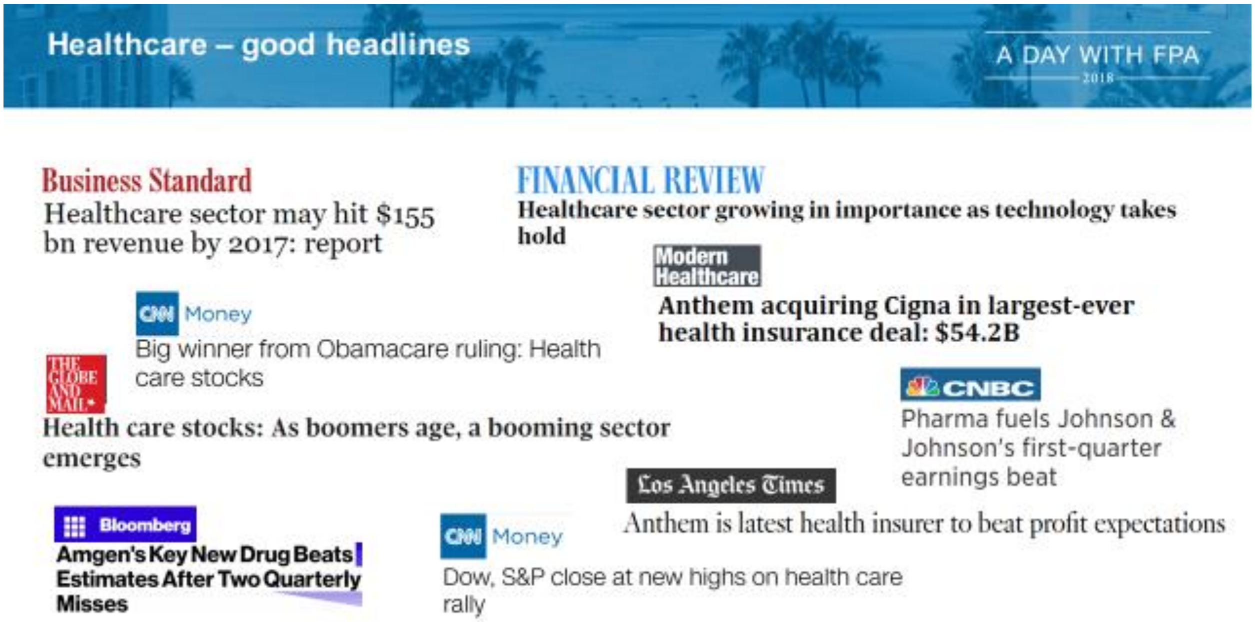
Crescent's exposure to healthcare, the blue line on the chart, went from net short in 2002 to 12 percent in 2010. Today, it stands at just 3 percent. As you can see, the blue line nearly tracks the green line.

We went from no exposure to substantial exposure down to negligible exposure, all a function of price.

Inexpensive valuations similarly led us to drug companies like Pfizer and Abbot Labs and to device makers like CareFusion, which was bought by Covidien, a stock we already owned and which in turn was bought by Medtronic -- Obamacare was good to investment bankers. We also owned the downtrodden insurance company Wellpoint, known colloquially as Anthem, and the biotech company Amgen, as well as the institutional pharmacy company Omnicare.

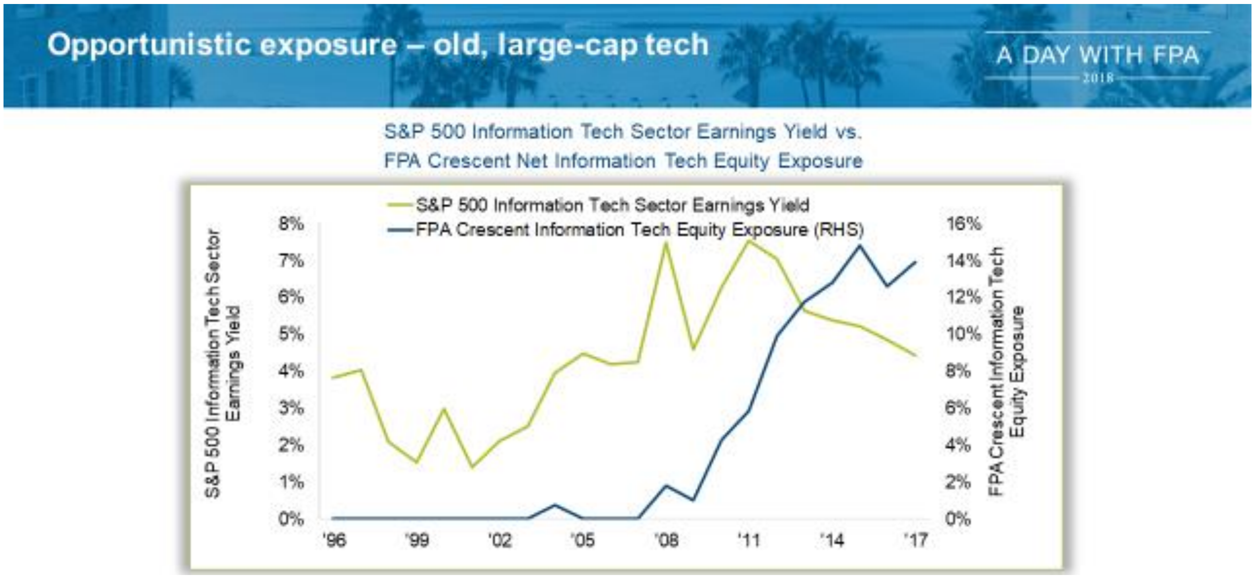
As of December 31, 2017.
Figures are presented at each year-end. Data prior to 1996 is not available. Earnings yield = TTM Earnings / Price. Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the back of the presentation for important disclosures.

The green line on the chart above shows the S&P 500 Healthcare Sector earnings yield. The blue line reflects the earnings yield of the healthcare companies in Crescent's portfolio. Not only was the sector reasonably priced, but as you can see, the companies we owned were less expensive than the overall group.



Turns out the worst fears about the healthcare business weren't realized. Drug companies have fared well. Anthem has hit it out of the park. And the other health-related companies in our portfolio have performed pretty well and are now trading at higher prices.

Another group of companies that once captured the love and affection of investors only to be tossed aside like jilted lovers were what we'll call Old Tech, companies like Microsoft, Cisco and Oracle.



As of December 31, 2017.
Source: FPA, Capital IQ, Bloomberg
Figures are presented at each year-end. Data prior to 2001 is not available. Exposure for periods prior to 2001 may differ materially. Fund sector exposure is net of short positions. Earnings yield = TTM Earnings Bloomberg Estimate / Price.
Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the back of the presentation for important disclosures.

Crescent didn't own a single tech stock until well after the tech bubble burst in 2000 to 2002. You can see from the blue line on the chart above, which shows Crescent's exposure to tech, that we didn't own much until 2010. Tech stocks were just too crazy expensive in the late Nineties, when the S&P 500 Information Technology Sector hit peak valuations.

By 2008, tech stocks offered an earnings yield more than four times higher than at the peak– that's equal to a decline in price-to-earnings of more than 75 percent. Not all tech stocks, of course, declined 75 percent, and earnings grew along the way as companies began to gradually grow their way into their valuations.

Crescent's exposure, illustrated by the blue line, rose along with the sector's earnings yield. It remains relatively high today, as many of these companies continue to trade at not too unreasonable valuations. We'd be willing buyers if they were to decline 20 percent.

All these companies were generally loved in the late 1990s but hated, misunderstood, or forgotten a decade later.

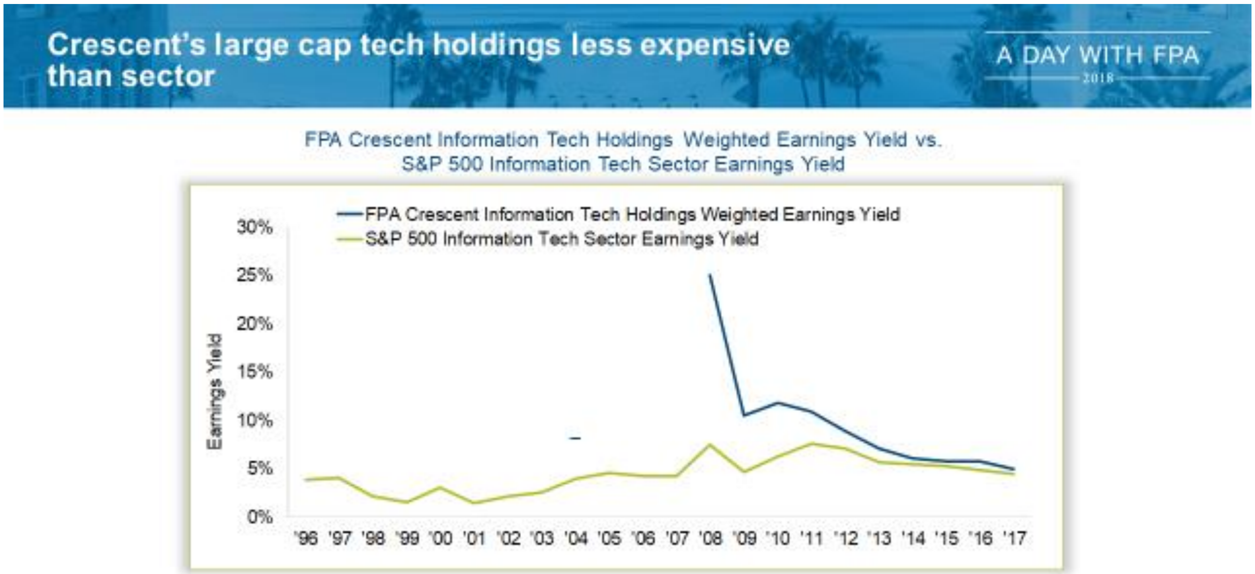
We wouldn't own eBay at 800 times earnings in 1999, but 10 times earnings a decade later sounded good to us for the leading online auction site and PayPal, the online payment processor that it had acquired in the meantime.

We were wary of Microsoft at 66 times earnings in 1999, but at around 10 times earnings net of cash in 2010, it seemed attractive. The company grew its earnings per share from 1999 to 2010 at a 17.6 percent clip -- yet, its stock price had declined by about half. Its excellent earnings growth was not enough to overcome the obstacle of excessive price.

Investors at the time were concerned that Ballmer was ruining the company by making horrible acquisitions and not aggressively developing the newest and best technology. More popular hardware like tablets would replace desktop and laptop PCs, or so the thinking went. Cloud software would disrupt Microsoft's existing product suite, and so on and on and on….

We thought there was more smoke at Microsoft than fire. As Mark Landecker likes to say, good things happen to cheap stocks. Today the company is second only to Amazon in the cloud. Ballmer is out and Nadella is in. Old software on CDs that customers had to update every couple of upgrade cycles has been replaced by the regularly updated Office 365 software purchased with a monthly subscription.

Microsoft's stock price is about 4 times its 2010 low.



As of December 31, 2017.
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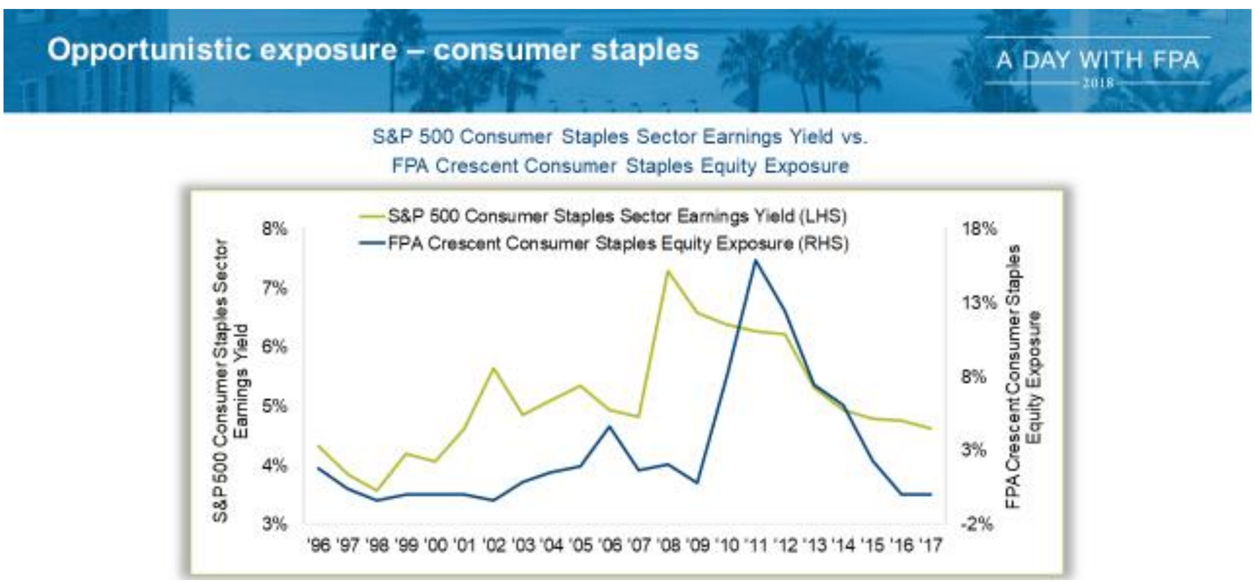
An earlier chart showed the earnings yield of tech stocks in the S&P 500 Index. The chart here shows that the stocks we owned were less expensive than the stocks in the Index, which is still the case today.

Technology is back in vogue now, and some of our tech positions are no longer in the portfolio, for instance, Intel, Texas Instruments, eBay and Western Digital. Our exposure to tech remains in the teens but much of the gains are still unrealized. Some tech companies in the portfolio now are newer tech than old tech, like Google, for example.

News doesn't have to be sector specific to drive stocks down. Consider consumer staples in 2011. There weren't many bad headlines about those companies that year, but there was enough bad news globally that hit markets overall and brought down a number of sectors, consumer staples among them.



As of December 31, 2017.
Source: FPA, Capital IQ, Bloomberg
Figures are presented at each year-end. Data prior to 2001 is not available. Exposure for periods prior to 2001 may differ materially. Fund sector exposure is net of short positions. Earnings yield = TTM Earnings Bloomberg Estimate / Price.
Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the back of the presentation for important disclosures.

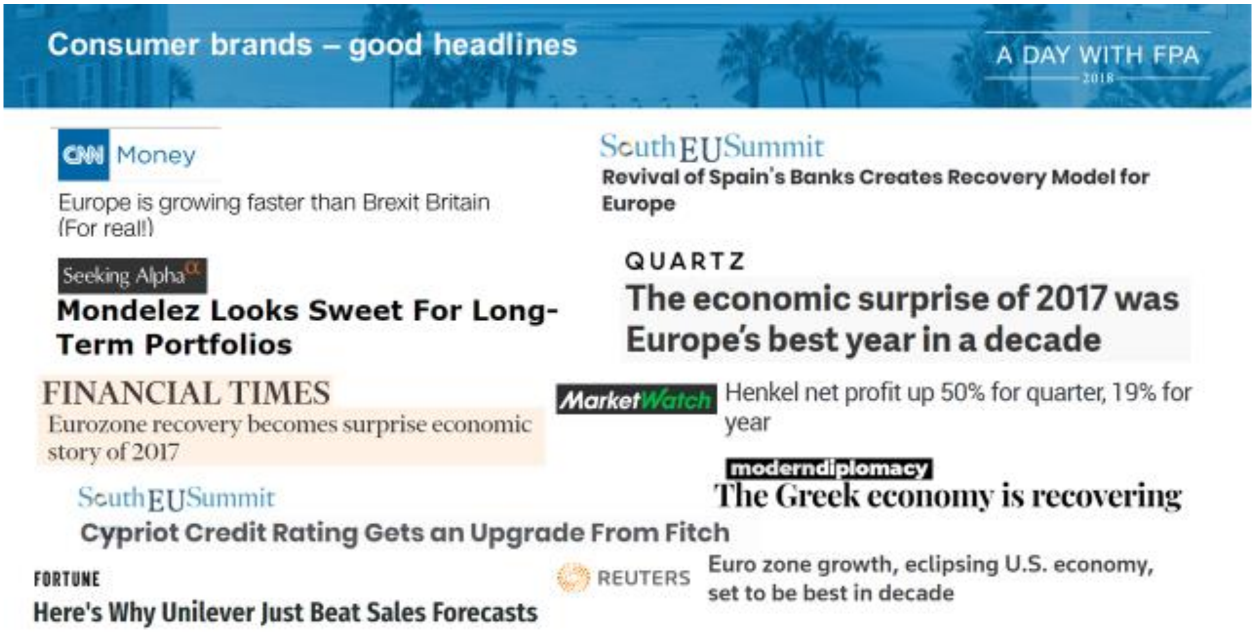
Stock prices of many quality consumer businesses fell to a level attractive enough to offer what we believed would be a good rate of return. The Fund's exposure to consumer staples increased in 2011 – the blue line in the chart above – when the S&P 500's Consumer Staples sector offered above average earnings yields.

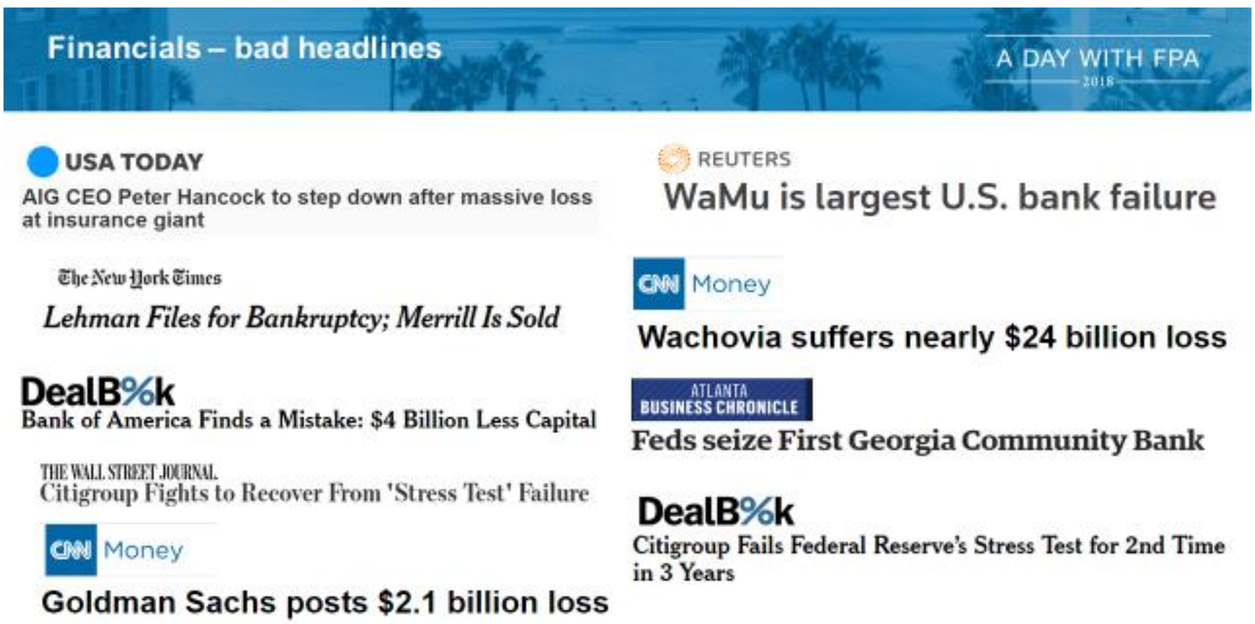
Our exposure today has declined as a percentage of the Fund's portfolio from the mid-teens to almost nothing as the sector's earnings yield has fallen to close to its lowest level in more than 20 years. Many of these companies are more challenged today as they face disruptive influences like new brands that have made their way to market via an online presence that bypasses traditional stores and by using social media to reach the consumer.

As of December 31, 2017.

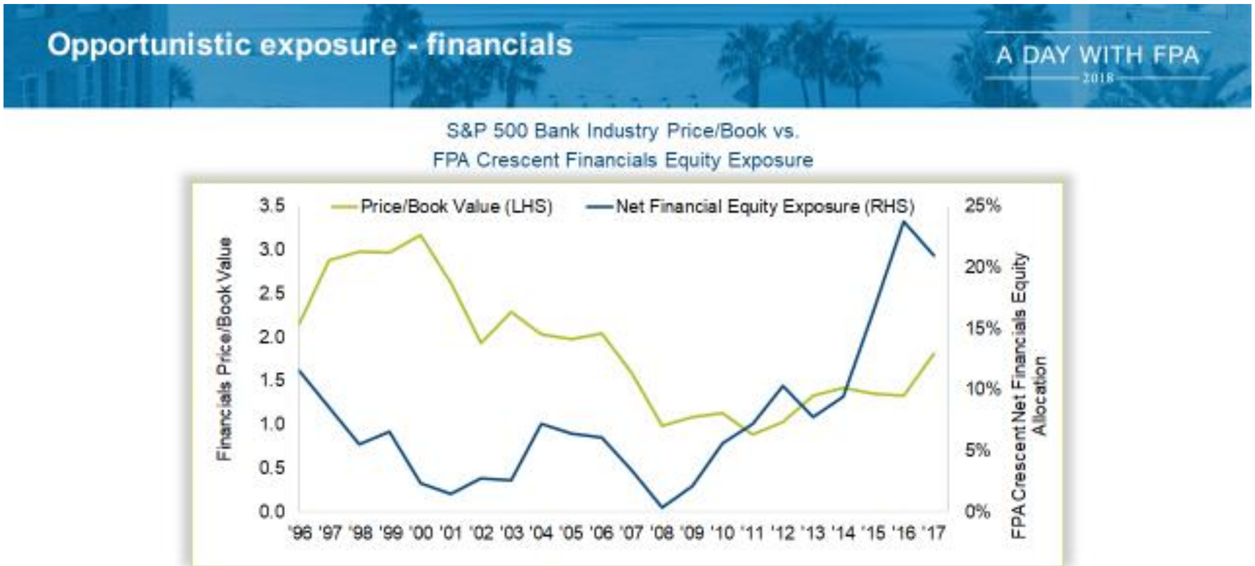
Figures are presented at each year-end. Data prior to 1996 is not available. Earnings yield = TTM Earnings / Price. Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the back of the presentation for important disclosures.

Again, Crescent's consumer staples positions were on average less expensive than their peers. The blue line in the chart shows Crescent's exposure to the sector and indicates a higher yield than the green line, which represents the S&P 500 Consumer Staples Sector for the period that we held those positions.





There's hardly a need for an image of bad headlines about financial companies. I think everyone is familiar with them.



Source: FPA, Bloomberg. As of December 31, 2017.
S&P 500 Bank Industry Price/Book vs FPA Crescent allocation to Financials. Fund sector exposure is net of short positions. Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

Let's look at our exposure to the asset intensive financials as an example of how we move in and out of sectors and asset classes and studiously avoid anything expensive. When we look at the financial sector, we use the price-to-book ratio, shown by the green line in the chart above, rather than earnings yield. The lower the price-to-book ratio is, the cheaper the sector. Crescent's exposure – the blue line – should move inversely to the green line, which is the case here.

Financial stocks accounted for a portion of the portfolio in the low teens in the mid-1990s, but those positions were held below tangible book value or at a very low multiple of book value. As those investments exited the portfolio, we didn't replace them until valuations were cheaper. The green line suggests that financials were cheap in 2008 and 2009, but many financial companies were still fighting through bad loans and needed equity capital. As accountants like to say, the left side of the balance sheet wasn't right and the right side didn't have much left.

Citigroup, for example, had just 3 percent tangible equity to assets in 2008. By 2016, tangible equity had grown to more than 10 percent, yet Citi's stock traded at almost a 40 percent discount to book value.

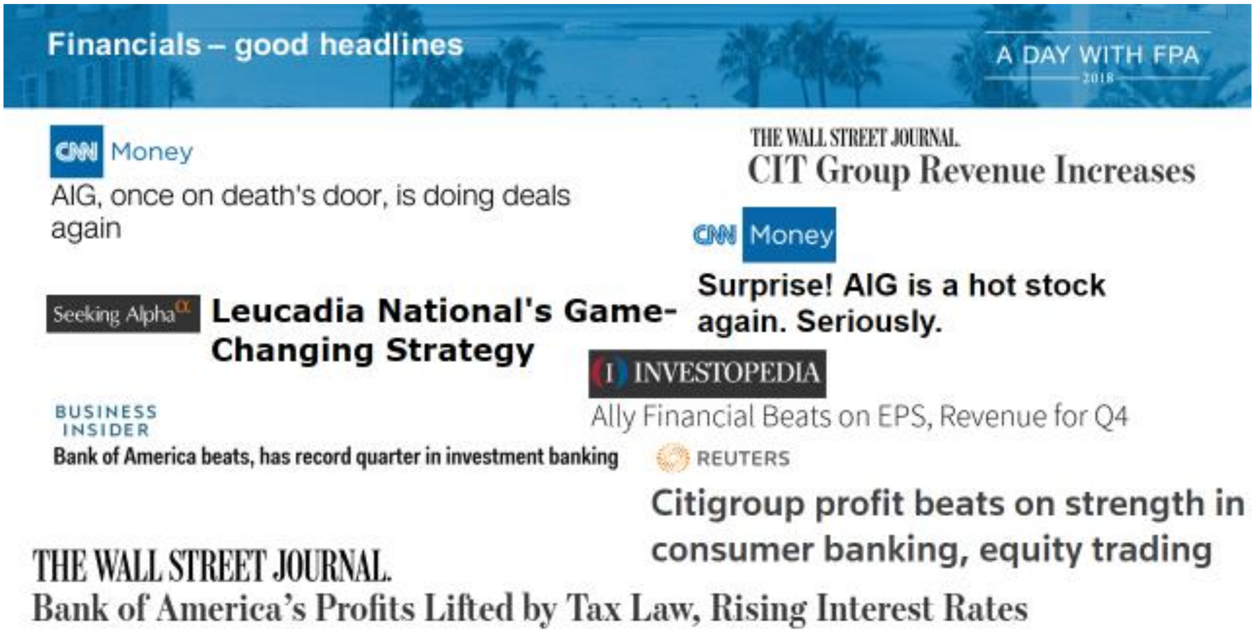
You can see our exposure to financial sector stocks increasing from nothing in 2008 to 10 percent in 2012 and 15 percent in 2016. Exposure peaked at about 24 percent, and because of appreciation, positions have been trimmed. The Fund's investment in financials is now in the low 20 percent range, which includes all financials, even non-asset intensive companies, like Aon.

We've owned many financials over the years, and the vast majority were successful investments. Because an index carries a certain sector weight doesn't mean that an active manager has to carry the same weight, or any at all. We've owned many financials, and there are times when we've owned none. Part of our success in the 2000s was because we didn't own stock in two sectors, financials and technology. We call that winning by not losing.

Source: Morningstar. As of March 31, 2018.

Fear leads to selling. And a price that's low because of irrational fear can create an opportunity.

Bank of America is an example of irrationality at work. In 2015 and 2016, investors were scared that financial stocks could implode like they did in 2008, and so many companies traded at valuations that were just silly. Investors sold Bank of America expecting its earnings to fall and book value to be impaired. As you can see above, that was far from the case….



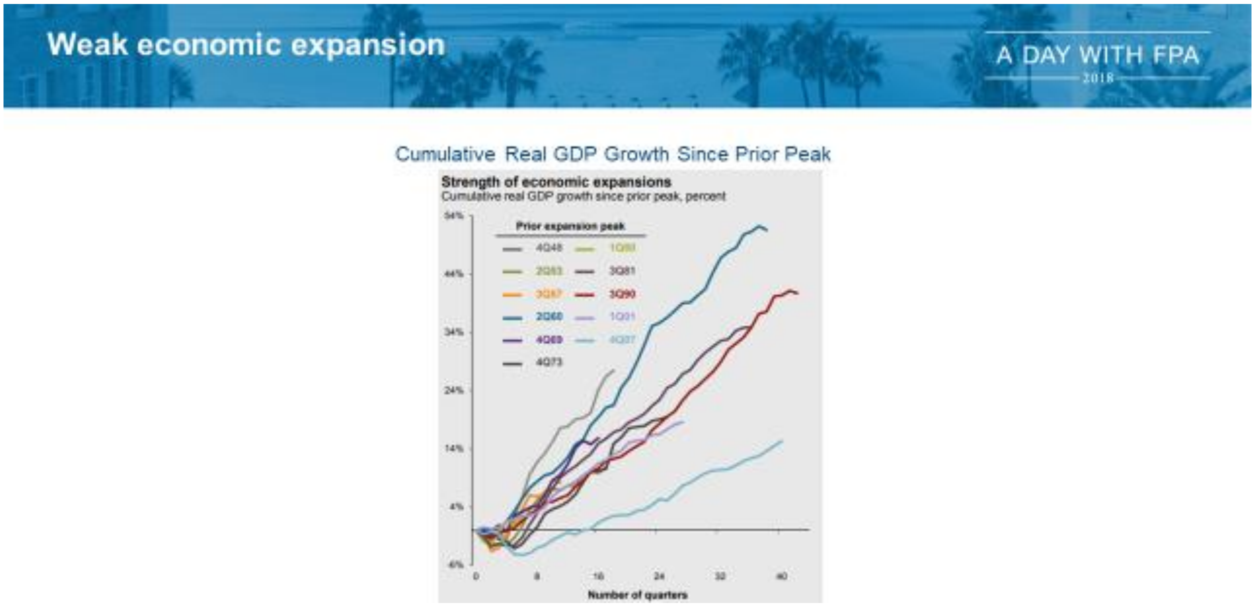
Financials have seen better headlines of late. Good news for what we own, and it helps explain the reduction in the Fund's exposure to financials.

Market View

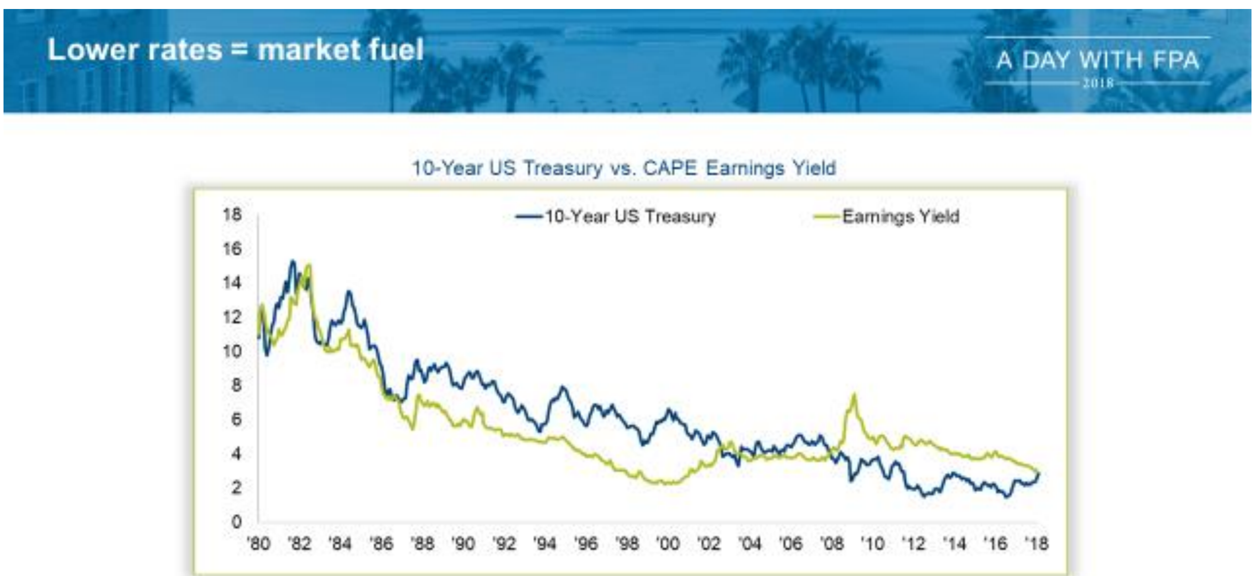
For the market to remain robust, two underpinnings need to remain constant. First, the economy must keep chugging along, and, second, interest rates need to remain reasonably low.

Source: National Bureau of Economic Research. As of March 31, 2018.

The current economic expansion is the third longest on record – 103 months -- and it may end up being the longest. We don't know, but we don't think any economic disappointment is priced into current stock prices. It's not like this US economic expansion has been robust. Over the last century, it is the weakest recovery in the aggregate, relative to the size of the downturn.



As of March 31, 2018
Source: JP Morgan Guide to the Markets

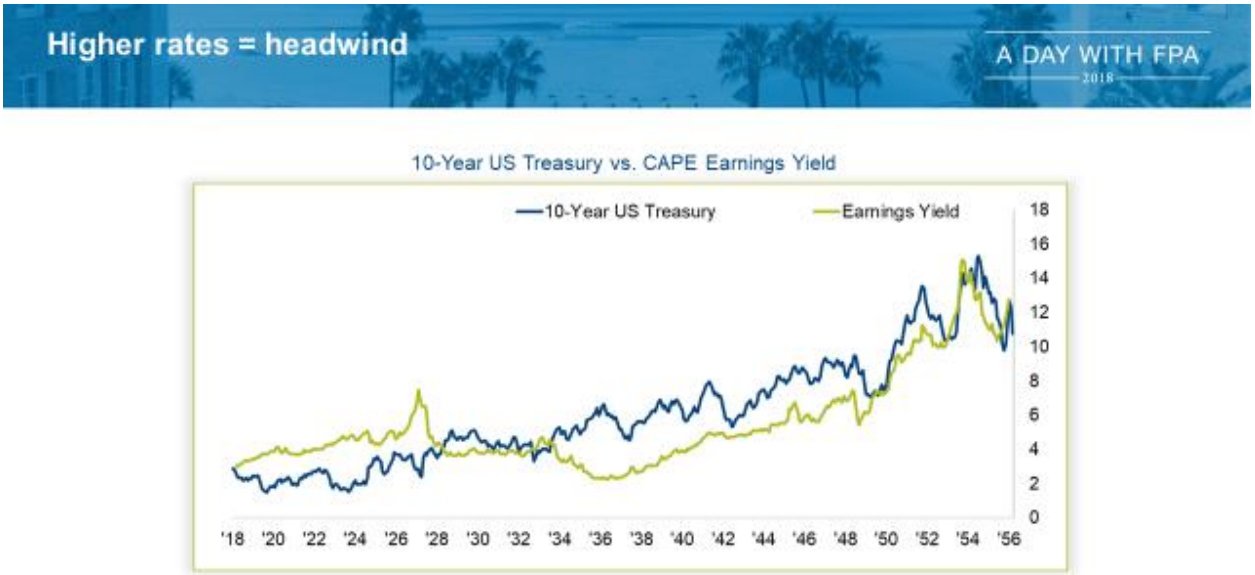


As of March 31, 2018
Source: Shiller

If I had to pick one chart that has been the greatest driver of stock market returns, it would be the one here, which shows the decline of interest rates in the US.

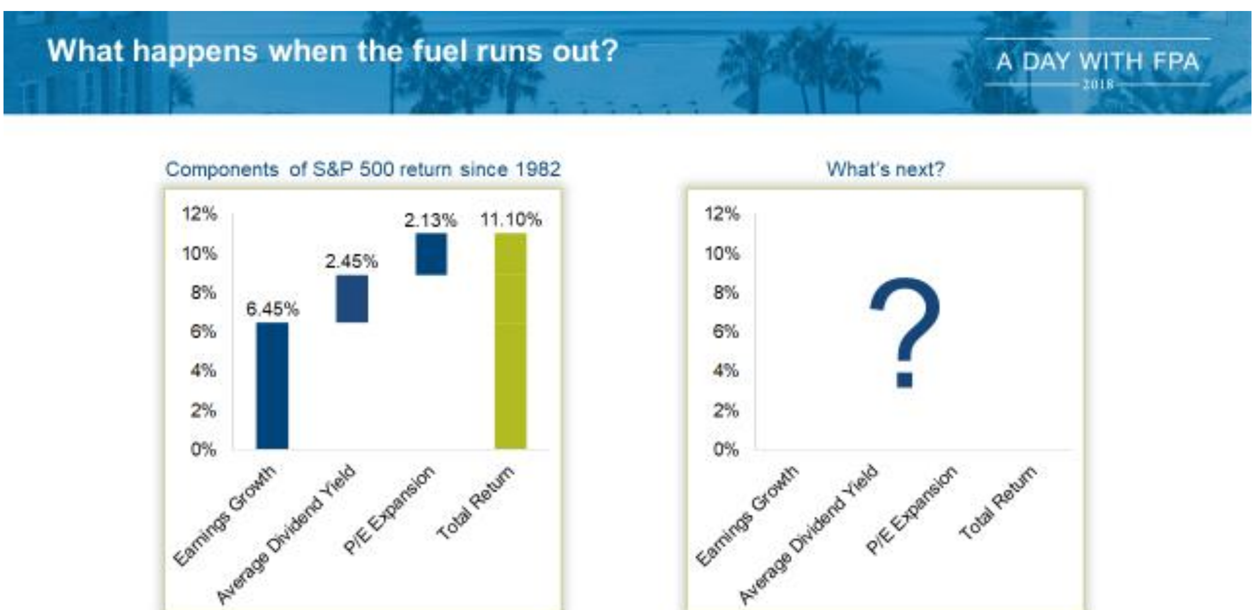
If I were to overlay the CAPE earnings yield for the US market, you would see that as interest rates have fallen, the earnings yield of the market has also fallen. Said differently, when interest rates go down, stock prices go up.

Earnings growth has not been the biggest driver of stock prices. In 1982, you can see on the graph above that the earnings yield was more than 15 percent, or about the same as the 10-year Treasury bond. And here we are today with earnings yield and interest rates still trading in lockstep.



As of March 31, 2018
Source: Shiller, FPA

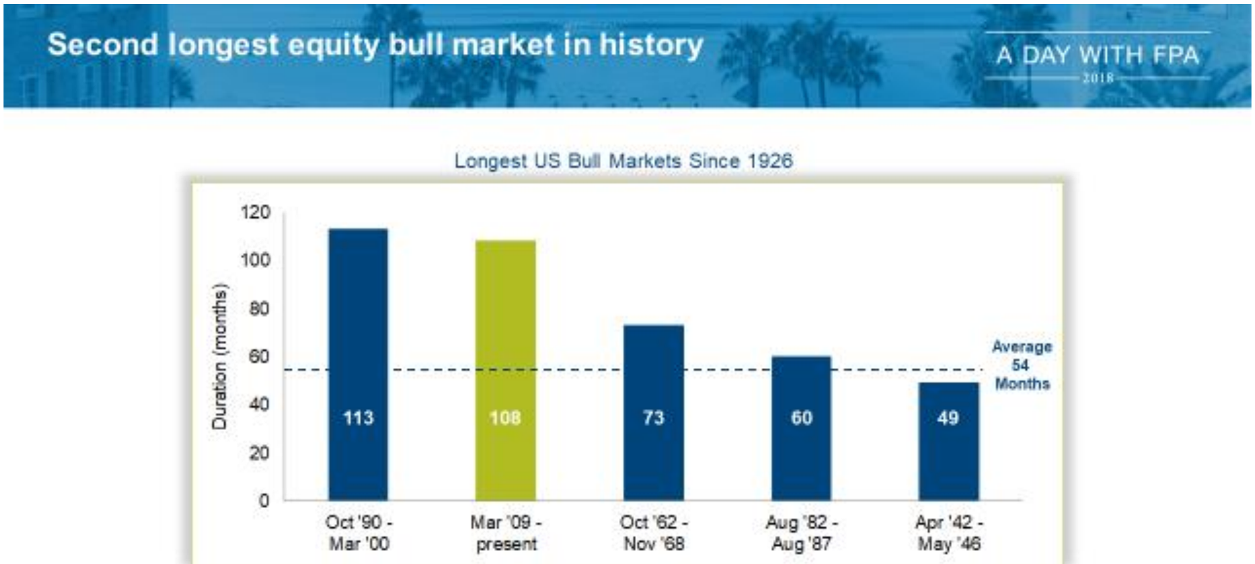
What happens if interest rates increase either a little or a lot? Flipping the last 35 years on its ear is not something anyone is talking about right now, and we're not suggesting interest rates will rise dramatically or that the earnings yield (i.e., lower P/E) will similarly deteriorate. But even a gradual rate increase isn't in the cards for most investors.



As of March 31, 2018. Source: Bloomberg.

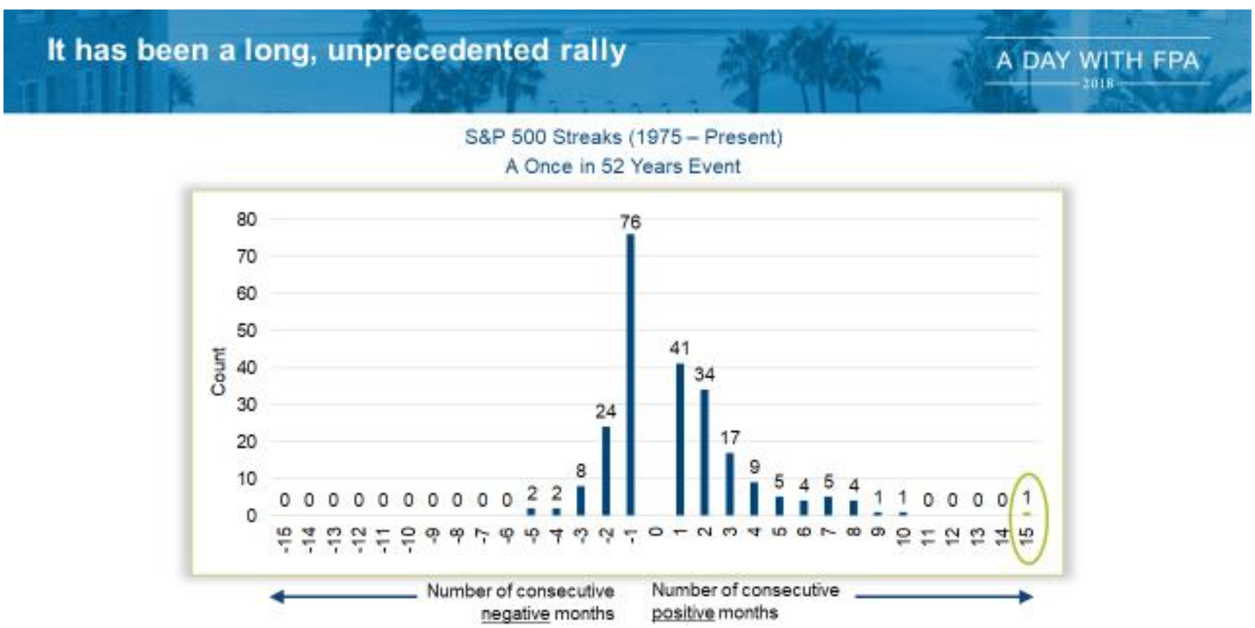
Of the US stock market's 11 percent return, price-to-earnings expansion has accounted for 2.1 percent. The average price of shares in 1982 was 10.2 times earnings; at the end of 2017 it was 21.7 times. Earnings growth in 1982 was 6.5 percent, but over the last decade, earning have grown just 3.4 percent. The dividend yield was 3.5 percent in 1982 compared to just 2 percent today.

Imagine the next ten years and fill in the blanks for earnings growth, dividend yield and P/E.



As of March 31, 2018
Source: JP Morgan Asset Management

We now sit at the 2nd longest bull market of the last century, and for all we know, it could set a new record. This rally has truly been unprecedented. The S&P 500 had 15 consecutive months of positive performance, a streak broken in February. The longest previous streak was 10 months -- and that happened just once. Before that, the longest streak was 9 months, and that, too, also happened only once.



Source: Morningstar. As of March 31, 2018

As of March 31, 2018
Source: Bloomberg

Such streaks of good fortune are not limited to the US. Markets around the world have been strong, particularly since 2015, offering returns with a nice benefit of multiple expansion.

Source: Bloomberg. As of March 31, 2018
Yield to Worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. SEC Yield as of March 31 2018 was 0.61%. The SEC Yield calculation begins with the Fund's dividend payments for the last 30 days, subtracts fund expenses (but excluding any fee waivers) and uses this number to estimate your returns for a year. This calculation is based on the price of the fund at the beginning of the month.

Nor is it just the US that has seen historically low interest rates. Interest rates near zero have been a global phenomenon -- and not an entirely rational one at that. The US government now borrows at 3 percent for 10 years. Italy somehow gets to borrow at 1.7 percent, and Spain at 1.25 percent. Even Croatia's 10-year borrowing cost is a mere 2.1 percent.

We're sitting on a lot of cash. There are many reasons, including some I've already mentioned, why it's been hard for us to find value, and – an important caveat – the larger picture views don't factor into our investment decisions. Crescent's cash pile has increased solely because we haven't found many investments that meet our risk/reward hurdles.

Source: Shiller, Robert J. Online Data, www.econ.yale.edu/~shiller/data.htm. Data as of March 31, 2018. Monthly dividend and earnings data are computed from the S&P four-quarter totals for the quarter since 1926, with linear interpolation to monthly figures. Dividend and earnings data before 1926 are from Cowles and associates (Common Stock Indexes, 2nd ed. [Bloomington, Ind.: Principia Press, 1939]), interpolated from annual data. CAPE stands for Cyclically Adjusted P/E. P/E or price-to-earnings is a valuation ratio of a company's current share price compared to its per-share earnings. Please refer to the end of the presentation for important disclosures.

This chart shows that the Cyclically Adjusted Price-to-Earnings Ratio, or CAPE Ratio, has only been higher 3 percent of the time. But since the CAPE ratio has its flaws, let's look at some other measures.

Source: Bloomberg. As of March 31, 2018. Forward earnings represented by Bloomberg's Best field, using next four quarters estimates.

The S&P 500's projected P/E ratios show the market is priced only slightly above average – but that average is terribly skewed by the 1998-to-1999 period of hypervaluations. Also, forward P/E ratios have generally proven to be overly optimistic.

US equity market valuations at new high relative to economy

A DAY WITH FPA 2018

As of December 31, 2017
Source: Federal Reserve Bank of St Louis, Board of Governors of the Federal Reserve.

Considered in the broader context of the US economy, US stock market valuation still reads expensive, in fact as expensive as it has been in the last 70 years.

Global stock valuations are historically high

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Valuations at Most Recent Market Peaks vs. March 31, 2018

	US (S&P 500)				Global (MSCI ACWI)			
	Price/ Earnings TTM	Price/ Sales TTM	Price/ Book	CAPE	Price/ Earnings TTM	Price/ Sales TTM	Price/ Book	CAPE
Mar 31, 2000	18.9	1.4	2.9	43.2	16.2	1.0	1.9	N/A
Sep 30, 2007	18.2	1.7	3.1	26.7	17.8	1.7	2.6	28.6
Mar 31, 2018	21.3	2.5	3.3	32.1	19	1.3	2.2	22.0

Source: Bloomberg, MSCI. Data as of March 31, 2018. P/E TTM = Trailing 12 month Price/Earnings median value of underlying securities. P/S TTM = Trailing 12 month Price/Sales median value of underlying securities. P/B = Price/Book median value of underlying securities. CAPE Ratio = value of Price/average 10-year earnings, adjusted for inflation. CAPE is not available for MSCI ACWI as the index was created in 1995 (Bloomberg, Research Affiliates). Please refer to the end of the presentation for important disclosures.

Valuations are high. US P/E ratios are higher than either of the prior two market peaks, as is shown on the left hand side of the table above, and so are price-to- sales ratios and price-to-book ratios.

Global markets – shown on the right hand side of the table – have P/E ratios and price-to-sales ratios as high, or higher, than the prior two market peaks, and price-to-book ratios are close to the prior peak.

International stocks are cheaper?

Large, Quality US Company Valuation vs International Peers

Industry	US Company	P/E TTM	International Company	P/E TTM	International Premium / Discount
Consumer Durables & Apparel	Nike	28.9	Adidas	29.6	2%
Distillers & Vintners	Brown Forman	34.6	Diageo	18.9	-46%
Food Distributors/Restaurants	Sysco Corp	23.1	Compass	20.4	-12%
Household/Personal Products	Colgate-Palmolive Co	24.8	Unilever	21.2	-15%
Household/Personal Products	Estee Lauder	36.2	L'Oréal Group	26.8	-26%
Household/Personal Products	Procter & Gamble	19.3	Unilever	21.2	10%
Insurance Brokers	Marsh & McLennan Cos Inc.	21.0	Aon	31.2	49%
Packaged Foods & Meats	General Mills	14.6	Danone	17.1	17%
Pharmaceuticals	Merck & Co Inc	15.5	Sanofi	21.7	40%
Specialty Chemicals	International Flavors & Fragrances	23.2	Givaudan	27.8	20%
Systems/Application Software	Oracle	17.6	SAP	25.4	45%
				Average	**8%**
				Median	**10%**

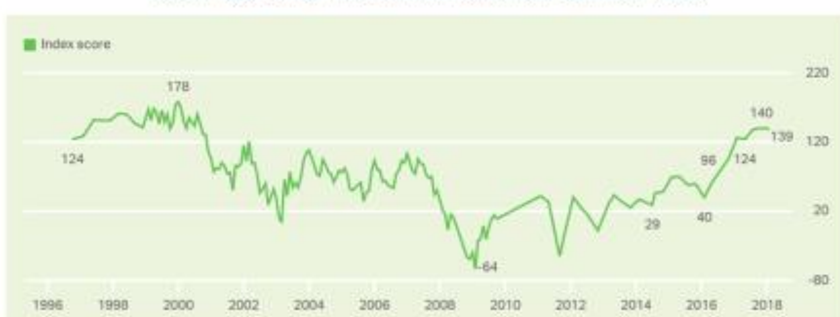
As of March 31, 2018
Source: Bloomberg
P/E TTM = Trailing 12 Month Price to Equity. International Premium/Discount refers to the premium or discount in valuation at which International companies are being traded at over their US peers.

There is a view that stocks are much cheaper outside the US, but that's a view from 30,000 feet and inaccurate when you compare a US company to a reasonable analog outside the US. Like-for-like companies are priced similarly around the world. For example, on a trailing twelve-month basis, Nike trades at 28.9 earnings, while Germany's Adidas trades at 29.6 times. The insurance broker Marsh McLennan trades at 21 times, and UK's Aon trades at 31.2 times. Proctor & Gamble trades at a 10 percent discount to Unilever.

Spirits company Brown Forman, on the other hand, trades at a 46 percent premium to its U.K. analog Diageo, but that seems to be an aberration. Looking at the 11 comparisons in the image US companies trade at an 8 percent to 10 percent discount to their foreign peers.

Bears facing extinction

US Investor Optimism (1996 – 2018)
Wells Fargo/Gallup Investor and Retirement Optimism Index



Source: Wells Fargo/Gallup

The last time stocks took a serious whopping was a decade ago. We just closed out 15 consecutive months of positive performance for the S&P 500, and most investors hold the view that it's hard to lose money. Optimism hasn't been this high since 2000.

Source: Federal Reserve Economic Data (FRED), Capital IQ. As of March 31, 2018.
Household equity as a percent of total household financial assets series has been shifted forward 10 years and flipped.

This has pushed more and more people into stocks, particularly with bond alternatives still offering returns that barely keep up with inflation.

The blue line on this chart above shows the trailing 10-year return of the S&P 500.
The green line shows household equity as a percent of household financial assets, shifted forward ten years and flipped upside-down to more clearly depict its correlation to the S&P's return.

You can see the green line reaching its nadir in 2010. That was really the peak – remember, the chart is flipped. Since it's also shifted forward ten years, that peak of about 40 percent really occurred 10 years earlier in 2000. In other words, household investment in stocks hit a high in 2000, suggesting that returns would be in the negative single digits -- and that's what happened.

The inverse relationship between household ownership of financial assets and future market returns has clearly been present for 56 years.

So what does today's household financial asset exposure suggest about the future? Current exposure suggests that the US market's projected return will converge towards zero (the green line data point to the far right of the chart suggests that the blue line will end up there.)

Investors accepting low yields in junk bonds

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High? Yield

	US	EU
Gross yield	6.3%	3.1%
Default rate, historical	-3.6%	-4.6%
Recovery rate, historical	41.0%	38.4%
Net default	-2.1%	-2.8%
Net yield	4.2%	0.3%

US gross yield as of March 31, 2018: BofA Merrill Lynch High Yield Master Index II (H0A0); US default and recovery rates: J.P. Morgan, Moody's Investors Service, S&P LCD using year-end data from 1982-2017 Q4; EU gross yield as of March 31, 2018: BofA Merrill Lynch Euro High Yield Index; EU default rate: J.P. Morgan Europe Guide to the Markets (12/31/2017); EU recovery rate: Moody's Investors Service using 1985-Q3 2016 data.

Investors seem willing to accept what we think will be a low yield in stocks. They also are willing to accept poor returns in high-yield bonds.

The US high-yield market offers a 6.3 percent gross yield. E.U. high-yield bonds offer even less return, just 3.2 percent. One is unattractive, given the risk, and the other is downright scary. Remember, these are gross yields. If one were to reduce the gross yield by the net default rate and to assume that past default and recovery rates are a guide, as I have done here, then the net yield would be just 4.2 percent for US high-yield bonds and 0.3 percent for the E.U. equivalent.

Weak US high yield covenants

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Moody's Covenant Quality Index

Source: Moody's April 10, 2018. The rating agency's Covenant Quality Index is a three-month rolling average of covenant quality. Data set represented is from January 2011 – March 2018. Moody's measures bond covenant quality on a five-point scale, with 1.0 denoting the strongest investor protections and 5.0, the weakest.

US high-yield investments are not only unattractive to us, but their historically poor covenant quality provides just about the weakest investor protection. (Poor covenant quality means there is less protection for bondholders in the event of a restructuring.)

Most leverage for US companies in almost 4 decades

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As of April 2017
Source: World Economic and Financial Surveys "Global Financial Stability Report: Getting the Policy Mix Right", Bloomberg
[1] The net debt to earnings before interest depreciation and amortization (EBITDA) ratio is a measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. The net debt to EBITDA ratio is a debt ratio that shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.

And that's against a backdrop of what is by some counts the highest leverage for US companies in almost four decades.

The blue line in the chart above is the median net leverage of S&P 500 companies, or the ratio of net debt to EBITDA (earnings before interest, taxes, depreciation and amortization). You can see it at its new high on the far right.

US interest coverage lowest ex-recession

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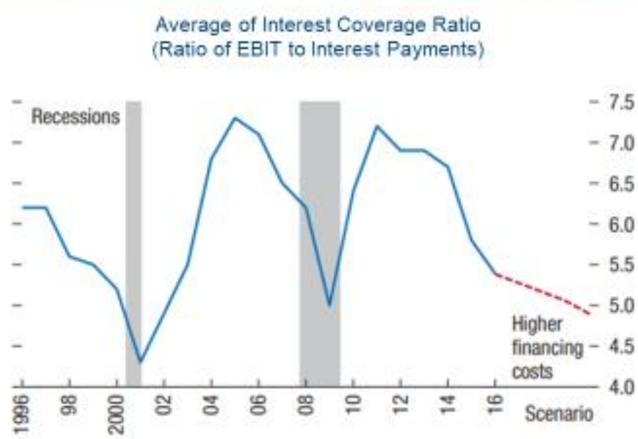
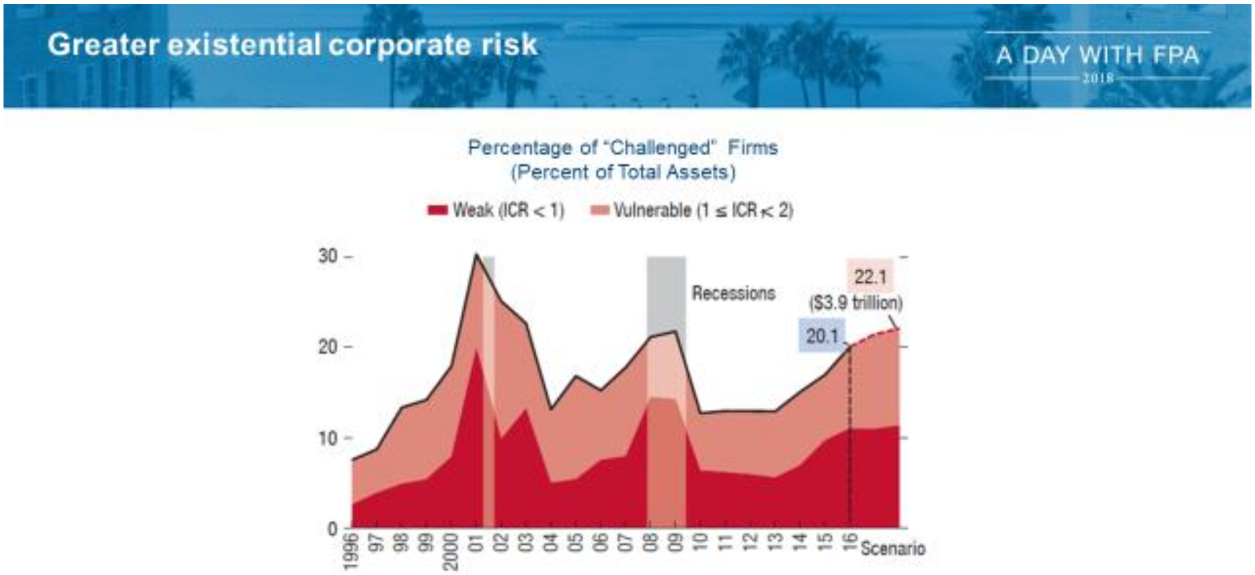


As of April 2017
Source: World Economic and Financial Surveys "Global Financial Stability Report: Getting the Policy Mix Right", Bloomberg

The amount of cash flow available to cover interest expense also is as low as it has been outside a recession in more than two decades. And you can see that cash flow coverage of interest expense typically dips in a recession as cash flow deteriorates.

This leaves more firms vulnerable to a potential restructuring than at any time since 2008.

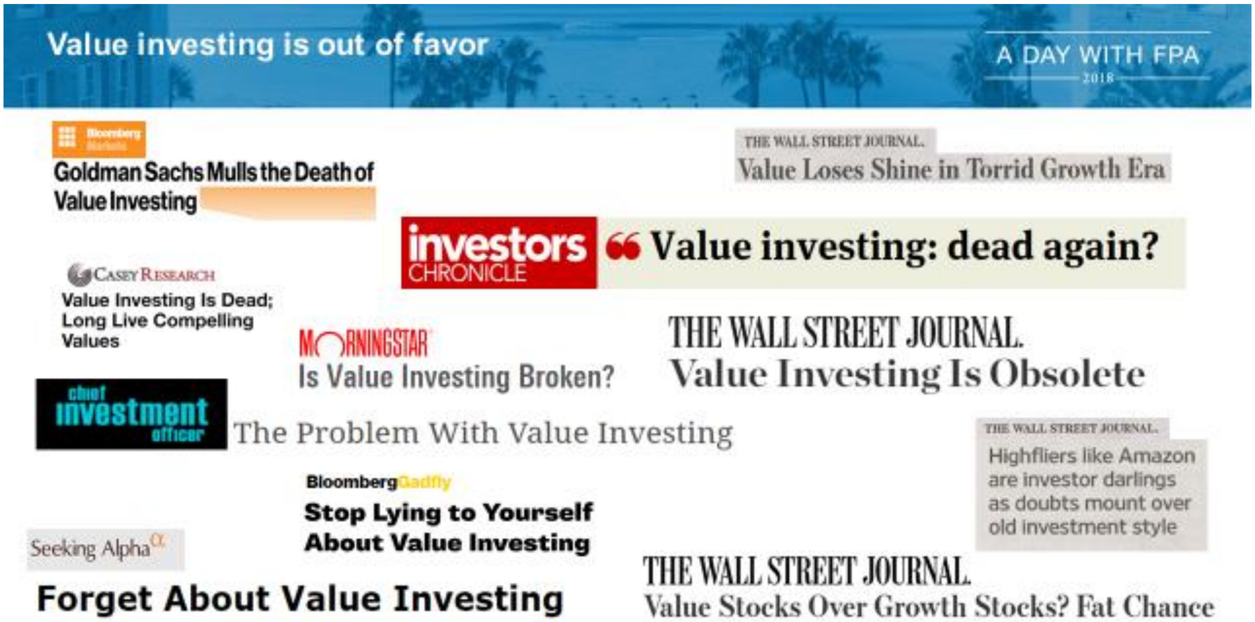


As of April 2017
Source: World Economic and Financial Surveys "Global Financial Stability Report: Getting the Policy Mix Right"
[1] The interest coverage ratio is used to determine how easily a company can pay their interest expenses on outstanding debt. The ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) by the company's interest expenses for the same period. The lower the ratio, the more the company is burdened by debt expense.

This doesn't mean, of course, that anything happens tomorrow. But it hopefully explains why we find this environment so challenging.

Source: JPMorgan. 2017 High Yield Annual Review and 2016 Leveraged Loan Annual Review. December 31, 2017.

And the US high-yield and leveraged loan market continue to grow. The good news about the image above is that it shows how much more opportunity there should be at some point in time because some portion of that $2.5 trillion market will stumble its way into restructuring.



When we call ourselves value investors, what we're really saying is that we prefer to invest with a margin of safety. I'm hopeful that the preceding discussion, charts and images have explained why we don't believe there is much of a margin of safety today.

Source: Morningstar. As of March 31, 2018. Value and Growth are represented by the Russell 1000 Value TR USD and Russell 1000 Growth TR USD Indices on a rolling 10-yr basis.

Value and growth move in and out of favor, and on a rolling 10-year basis, value has been out of favor since 2012. On a year-over-year basis, it has more or less been out of favor since we exited the Great Recession.

Last year, Crescent's long equity book underperformed the broad market, which was dominated by strong price moves in growth stocks. A small – very small – consolation was that the Fund's equity investments did beat the value indices shown.

Growth dominated value in 2017, continues to beat in 2018

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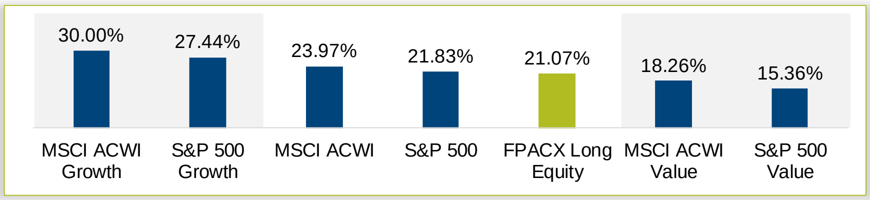
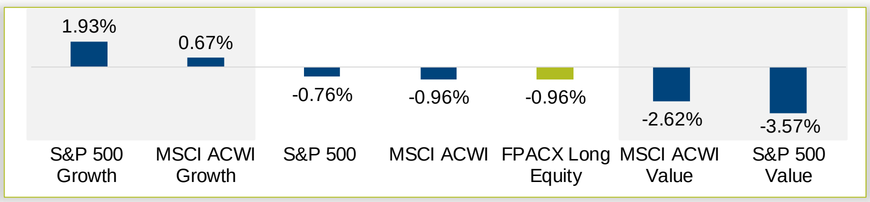
2017 Index Performance



2018 Index Performance



As of December 31, 2017
Source: Morningstar. Past performance is no guarantee of future results. Comparison to the S&P 500 and the MSCI ACWI Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

The trend of growth beating value has continued into 2018. The Fund continues to outperform the value indexes, although it underperforms the growth and broader indexes.

Growth is expensive relative to value

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Relative Valuation of US Value vs. US Growth Stocks

Source: Bloomberg
As of March 31, 2018. The Russell Value Index is represented by the Russell 1000 Value Index. The Russell Growth Index is represented by the Russell 1000 Growth Index. The Value to Growth P/B Ratio in this cart is derived by dividing the Price to Book, or the ratio that compares a stock's market value to its book value, of the Russell Value Index over the Russell Growth Index. Comparison to the S&P 500 and the MSCI ACWI Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

The outperformance of growth investment has led to a larger valuation disparity between growth and value strategies than we've seen in almost two decades. The relative price-to-book valuation of US value stocks compared to US growth stocks is about as low as it has been, about a 30 percent discount to its average since 1995.

Source: Morningstar. Data from January 1, 1998 through January 1, 2005, the last period in which value investing was out of favor.

This is not the first time value has been out of favor, nor the first time active value managers like me have been considered dinosaurs. Barron's magazine famously asked Warren Buffet in 1999 if he'd lost his touch in an article with the headline, "What's wrong, Warren?" after he underperformed the market from 1998 through early 2000, as you can see in the chart above.

That all reverted, of course, in subsequent years.

Source: Morningstar. Data from January 1, 1998 through January 1, 2005, the last period in which value investing was out of favor. Comparison to the S&P 500 Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

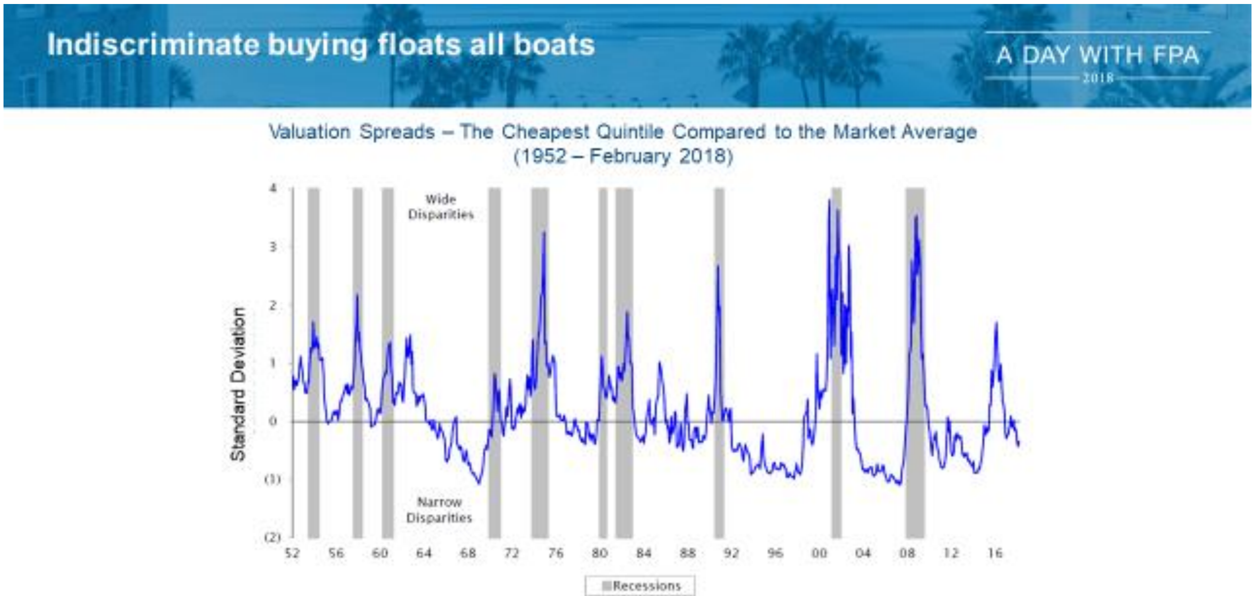
The same was said of us in the summer of 2000. Morningstar painfully, but not incorrectly, pointed out that "FPA Crescent has owned the wrong stocks in the wrong asset classes." We just weren't willing to invest our client's capital inappropriately.

We successfully delivered 59 percentage points of underperformance from 1998 to 1999 -- which turned into 42 points of outperformance when you tack on three more years.

Source: Bloomberg. As of March 31, 2018

Low volume lulls the complacent investor, and until recently that's all we've had. There will be periods of higher volatility in the future and with that will come opportunity. It always does.

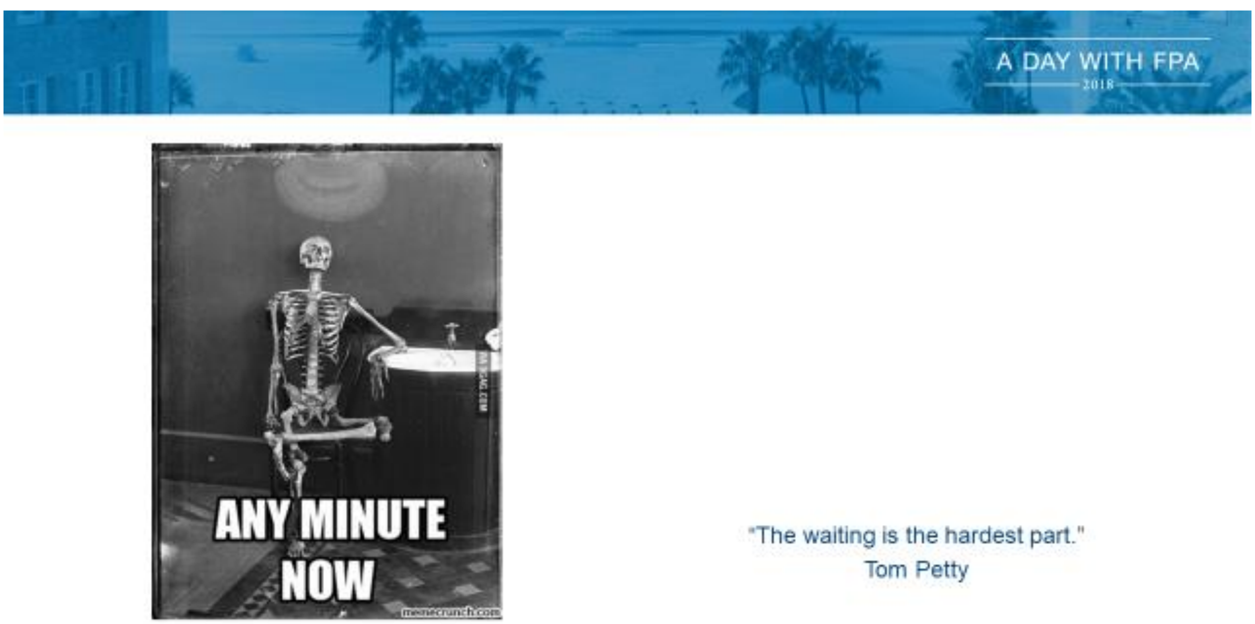
In a bull market, bravery is often confused with intelligence; a rising tide, as they say, lifts all boats.



Source: Empirical Research Analysis, National Bureau of Economic Research. As of February 28, 2018. Cheapest quintile refers to the most undervalued 20% of stocks in the market. Standard Deviation is a measure of dispersion of a data set from its mean.

The chart above shows the spreads between the valuation of the cheapest quintile of the market and the market average. The peaks in the chart show the greatest valuation disparities. At the peaks, there are always numerous stocks, sometimes in multiple sectors, that have been discarded in favor of businesses with seemingly more obvious and favorable futures.

We have been active buyers at all the large and small peaks. In the early Aughts, 2008 and 2009, 2011 and 2012, and most recently in late 2015 and early 2016 when we were buying financial stocks. We're counting on a value resurgence but have no idea how long we will have to exercise patience.



“We quickly forget financial disasters and the circumstances that brought them about, and as a consequence, when the same or closely similar circumstances arise again, sometimes in just a few years, they are hailed by a new, often youthful, and always extremely self-confident generation as a brilliantly innovative discovery in the financial and larger economic world.” It becomes a consistent cycle of “illusion to disillusion and back to illusion…. There can be few fields of human endeavor in which history counts for so little as in the world of finance.” – John Kenneth Galbraith, A Short History of Financial Euphoria

Closing Disclosures

Thank you for viewing our Investor Day Prepared Remarks. We invite you, your colleagues and shareholders to reference the presentation slides and recordings of this presentation that will be available on our website 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.

Please visit fpa.com for future event and 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 3-4 weeks following each quarter end. If you did not receive an invitation via email for today's event 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 in this piece are as of today and are subject to change based on market 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 may request a prospectus directly from the Fund's distributor, UMB Distribution Services, LLC, or from our website fpa.com. Please read the prospectus carefully before investing.

FPA Funds are offered by UMB Distribution Services, LLC.

Appendix

This investor presentation is the proprietary material of First Pacific Advisers LLC (the "investment manager") and may not be distributed with consent of the investment manager. This presentation is for information purposes only and does not constitute an investment management agreement or offering circular.

There can be no assurance that the portfolio management product or other account managed by the investment manager will achieve the targeted rate of return or volatility or other specified parameters and there is no guarantee against loss resulting from investment. Investment in the markets carries risk of loss of capital. Investors should review the terms of the investment management agreement with due care and appropriate professional advice.

Return and volatility targets or objectives are used for measurement or comparison purposes and only as a guideline for prospective investors to evaluate the investment strategy and the accompanying risk/reward ratio. Targeted returns and volatility are subjective determinations by the investment manager based on a variety of factors, including, among others, investment strategy, prior performance or similar products, volatility measures, risk tolerance and market conditions. Performance may fluctuate, especially over short periods. Targeted returns and volatility should be evaluated over the time period indicated and not over shorter periods. Targeted returns and volatility should not be relied upon as an indication of future performance. No representation or assurance is made that the FPA Crescent Fund will or is likely to achieve the objectives or targeted returns or volatility.

Certain information, including index and benchmark information, has been provided by third-party sources, and, although believed to be reliable, has not been independently verified and its accuracy or completeness cannot be guaranteed. Financial indicators and benchmarks are unmanaged, do not reflect any management fees, assume reinvestment of income, are shown for illustration purposes only, and have limitations when used for such purposes because they may have volatility, credit, or other material characteristics that are different from the FPA Crescent Fund. For example, the FPA Crescent Fund may typically hold substantially fewer securities than are contained in an index. The FPA Crescent Fund may

also trade non-index securities or equity or debt securities that are not comparable to those contained in an index. Indexes should not be relied upon as a fully accurate measure of comparison.
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 information contained herein is not complete, may change, and is subject to, and is qualified in its entirety by, the more complete disclosures, risk factors, and other information contained in the relevant PPM, investment management agreement and/or Form ADV. The information is furnished as of the date shown. No representation is made with respect to its completeness or timeliness. The information is not intended to be, nor shall it be construed as, investment advice or a recommendation of any kind. Past performance is not a guarantee of future results.

The information provided in this presentation is based upon data existing as of the date(s) of the presentation in FPA's internal systems and has not been audited or reviewed. While we believe the information to be accurate, it is subject in all respects to adjustments that may be made after proper review and reconciliation.

The reader is advised that FPA's investment strategy includes active management of its client portfolios with corresponding changes in allocations from one period of time to the next. Therefore, any data with respect to investment allocations as of a given date is of limited use and may not be reflective of FPA's more general views with respect to proper geographic, instrument and /or sector allocations. The data is presented for indicative purposes only and, as a result, may not be relied upon for any purposes whatsoever.

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, and any information provided is not a sufficient basis upon which to make an investment decision. The information provided does not constitute, and should not be construed as, an offer or solicitation with respect to any securities, products or services discussed. 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.

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.

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 1.09%. 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.

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.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. Small and mid-cap stocks involve greater risks and they can 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 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.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

Index / Benchmark / Category Definitions

The Standard & Poor's 500 Stock Index (S&P 500) is a capitalization-weighted index which covers industrial, utility, transportation and financial service companies, and represents approximately 75% of the New York Stock Exchange (NYSE) capitalization and 30% of NYSE issues. The S&P 500 is considered a measure of large capitalization stock performance.

The 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.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

The Consumer Price Index (CPI) is an unmanaged index representing the rate of the inflation of the U.S. consumer prices as determined by the U.S. Department of Labor Statistics. There can be no guarantee that the CPI or other indexes 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 comprised of 60% S&P 500 Index and 40% Barclays Aggregate Index, the Fund's neutral mix of 60% stocks and 40% bonds.

The BofA Merrill Lynch US High Yield Master II Index tracks the performance of US dollar denominated below investment grade corporate debt publically issues in the US domestic market.

The Barclays 1-3 Year U.S. Treasury Index measures the performance of U.S. Treasury securities that have a remaining maturity of at least one year and less than three years.

Indices 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.

Other Definitions

The Fund's Debt/Total Capital is calculated by dividing each security's long-term debt by its total capitalization (the sum of common equity plus preferred equity and long-term debt) and is a measure of the portfolio's financial leverage. Debt/Capital figures for FPACX exclude financials holdings.

Long equity represents the performance of stocks that the Fund owned over the given time periods and excludes short-sales, limited partnerships, derivatives/futures, corporate bonds, mortgage backed securities, and cash and cash equivalents.

Price/Book ratio is the current closing price of the stock by the latest quarter's book value per share.

Price/Earnings ratio (P/E) is the price of a stock divided by its earnings per share. P/E and average P/E reflect the trailing 12 months. P/E, next 12 months utilizes forward earnings expectations.

Price-to-Sales (P/S) is a ratio valuing a stock relative to its own past performance. Price to sales is calculated by dividing a stock's current price by its revenue per share in most recent year.

Return on Equity is the amount of profit computed by dividing net income before taxes less preferred dividends by the value of stockholders' equity.

Tangible Equity/Tangible Assets is calculated by taking the value of the company's total equity and subtracting intangible assets, goodwill and preferred stock equity and then dividing by the value of the company's tangible assets.

Price/Tangible Book is the price of a stock divided by its tangible book value per share. Tangible book value is the total net asset value of a company minus intangible assets and goodwill.
Standard deviation is a measure of the dispersion of a set of data from its mean.

Sharpe ratio is the average return earned in excess of the risk-free rate per unit of volatility or standard deviation.

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
		COMMON STOCKS (LONG)					
AA	914,831	ALCOA INC.			44.96	41,130,802	0.3%
ALLY	8,269,555	ALLY FINANCIAL			27.15	224,518,418	1.3%
GOOG	242,756	ALPHABET INC - C			1,031.79	250,473,213	1.5%
GOOGL	241,202	ALPHABET INC - A			1,037.14	250,160,242	1.5%
AABA	4,847,270	ALTABA INC			74.04	358,891,871	2.1%
AXP	1,708,126	AMERICAN EXPRESS COMPANY			93.28	159,333,993	1.0%
AIG	9,425,203	AMERICAN INTERNATIONAL GROUP, INC.			54.42	512,919,547	3.0%
ADI	3,426,243	ANALOG DEVICES, INC.			91.13	312,233,525	1.9%
AON	3,299,180	AON PLC*			140.33	462,973,929	2.7%
ARNC	15,228,573	ARCONIC			23.04	350,866,322	2.1%
AXTA	3,060,111	AXALTA COATING SYSTEMS LTD			30.19	92,384,751	0.6%
BIDU	1,580,228	BAIDU INC. - ADR*			223.19	352,691,087	2.1%
BAC	15,963,136	BANK OF AMERICA CORPORATION			29.99	478,734,449	2.8%
CSCO	5,872,536	CISCO SYSTEMS			42.89	251,873,069	1.5%
CIT	7,771,771	CIT GROUP			51.50	400,246,206	2.4%
C	5,254,757	CITIGROUP			67.50	354,696,097	2.1%
DHCP	252,912	DITECH HOLDINGS (COMMON)			8.99	2,273,679	0.0%
ESL	2,630,901	ESTERLINE TECHNOLOGIES CORPORATION			73.15	192,450,408	1.1%
EXPE	2,293,166	EXPEDIA, INC.			110.41	253,188,458	1.5%
FB	1,408,767	FACEBOOK, INC. - A			159.79	225,106,879	1.3%
OGZD LI	12,690,400	GAZPROM OAO - ADR*			4.88	61,880,167	0.4%
GBLB BB	2,851,023	GROUPE BRUXELLES LAMBERT S.A.*			114.37	326,081,018	1.9%
JS SP	2,067,360	JARDINE STRATEGIC HOLDINGS LIMITED*			38.44	79,476,908	0.5%
KMI	11,623,395	KINDER MORGAN, INC,			15.06	175,048,329	1.0%
LUK	15,435,800	LEUCADIA NATIONAL CORPORATION			22.73	350,855,734	2.1%
LPLA	3,521,869	LPL FINANCIAL HOLDINGS INC.			61.07	215,080,540	1.3%
LKOD LI	1,455,100	LUKOIL OAO - ADR*			69.04	100,465,223	0.6%
MGGT LN	38,965,308	MEGGITT PLC*			6.07	236,384,167	1.4%
MSFT	5,520,187	MICROSOFT			91.27	503,827,467	3.0%
MNOD LI	4,377,920	MMC NORILSK NICKEL OJSC - ADR*			18.56	81,256,888	0.5%
MYL	7,425,690	MYLAN NV*			41.17	305,715,657	1.8%
NPN SJ	2,918,607	NASPERS LIMITED - N SHARES*			244.71	714,220,691	4.2%
	2,431,709	NEXEO SOLUTIONS - FOUNDER SHARES			6.64	16,152,518	0.1%
NXEO	17,691,717	NEXEO SOLUTIONS INC.			10.70	189,301,372	1.1%
OXY	110,027	OCCIDENTAL PETROLEUM			64.96	7,147,354	0.0%
ORCL	13,579,250	ORACLE CORPORATION			45.75	621,250,687	3.7%
OI	8,912,900	OWENS-ILLINOIS			21.66	193,053,414	1.1%
PCG	3,118,485	PG & E CORPORATION			43.93	136,995,046	0.8%
PAH3 GY	1,562,200	PORSCHE AUTO HOLDING SE*			83.36	130,222,399	0.8%
QCOM	1,365,211	QUALCOMM INCORPORATED			55.41	75,646,342	0.4%
ROSN LI	5,711,200	ROSNEFT OIL COMPANY - REG S GDR*			5.49	31,370,976	0.2%
	1,146,250	SOUND HOLDINGS FP*			33.43	38,321,777	0.2%
SNGSP RM	39,322,900	SURGUTNEFTEGAS - PREFERENCE*			0.52	20,336,935	0.1%
TEL	3,917,150	TE CONNECTIVTY			99.90	391,323,285	2.3%
TMO	1,042,910	THERMO FISHER SCIENTIFIC INC.			206.46	215,319,199	1.3%
UNA NA	1,756,570	UNILEVER N.V.*			56.45	99,150,317	0.6%
UTX	3,772,690	UNITED TECHNOLOGIES CORPORATION			125.82	474,679,856	2.8%

TICKER	SHARES / PRINCIPAL	SECURITY	COUPON RATE (%)	MATURITY DATE	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
WPP LN	14,974,693	WPP PLC*			15.89	237,972,377	1.4%
		TOTAL COMMON STOCK (LONG)				**11,555,683,588**	**68.4%**
		COMMON STOCKS (SHORT)					
BABA	(1,426,540)	ALIBABA GROUP HOLDING LIMITED			183.54	(261,827,152)	-1.5%
IWM	(1,147,707)	ISHARES RUSSELL 2000			151.83	(174,256,354)	-1.0%
		OTHER COMMON STOCKS (SHORT)				(182,445,713)	-1.1%
PEI	(600,700)	PENNSYLVANIA REAL ESTATE INVESTMENT TRUST			9.65	(5,796,755)	0.0%
PBI	(401,000)	PITNEY BOWES INC.			10.89	(4,366,890)	0.0%
XLU	(2,507,401)	SPDR SELECT SECTOR UTILITIES			50.53	(126,698,973)	-0.8%
700 HK	(17,472,706)	TENCENT HOLDINGS LIMITED*			53.68	(937,926,790)	-5.6%
VOW3 GY	(578,602)	VOLKSWAGEN AG*			199.31	(115,323,371)	-0.7%
GWW	(96,049)	W.W. GRAINGER, INC.			282.27	(27,111,751)	-0.2%
		TOTAL COMMON STOCK (SHORT)				**(1,835,753,749)**	**-10.9%**
		PREFERRED STOCKS					
DHCP O PERP	9,950	DITECH HOLDINGS (CONVERTIBLE PREFERRED)			1,034.00	10,288,300	0.1%
		TOTAL PREFERRED STOCKS				**10,288,300**	**0.1%**
		LIMITED PARTNERSHIPS					
	121,095	GACP II L.P.			100.00	12,109,489	0.1%
	350,000	U.S. FARMING REALTY TRUST I, L.P.			110.85	38,798,165	0.2%
	120,000	U.S. FARMING REALTY TRUST II, L.P.			101.76	12,210,864	0.1%
	968	WLRS FUND I, LLC			10,757.23	10,412,019	0.0%
		TOTAL LIMITED PARTNERSHIPS				**73,530,537**	**0.4%**
		DERIVATIVES/FUTURES					
	430,887	DITECH HOLDINGS (WARRANTS - A)		2/9/2028	0.00	0.00	0.0%
	341,900	DITECH HOLDINGS (WARRANTS - B)		2/9/2028	0.00	0.00	
	88,725,000	EUR CURRENCY @ 1.2448*		6/27/2018	0.01	586,465	0.0%
	194,350,000	JPY PUT 95.00 @ $0.07525*		3/24/2022	0.06	11,415,342	0.1%
	10,000,000,000	USD 3Y5Y30YR LINEAR FORWARD VOLATILITY SWAP		5/22/2020	0.20	20,196,900	0.1%
	9,008,109,600	USD 3Y5Y30YR LINEAR FORWARD VOLATILITY SWAP		7/13/2020	0.20	17,707,962	0.1%
	8,987,916,100	USD 5Y5Y30YR LINEAR FORWARD VOLATILITY SWAP		7/13/2022	0.20	18,353,954	0.1%
		TOTAL DERIVATIVES/FUTURES				**68,260,623**	**0.4%**
		CORPORATE BONDS & NOTES					
	28,058,000	BOMBARDIER 144A	7.750	3/15/2020	106.75	29,951,915	0.2%
	13,800,000	BOMBARDIER 144A	5.750	3/15/2022	98.94	13,653,375	0.1%
	12,670,000	BOMBARDIER 144A	6.000	10/15/2022	99.00	12,543,300	0.1%
	29,534,000	BOMBARDIER 144A	6.125	1/15/2023	99.50	29,386,330	0.2%
	82,750,000	BOMBARDIER 144A	7.500	3/15/2025	102.50	84,818,750	0.5%
	5,800,000	BOMBARDIER 144A	7.450	5/1/2034	100.75	5,843,500	0.0%
	2,171,000	CALIFORNIA RESOURCES CORPORATION	5.000	1/15/2020	90.00	1,953,900	0.0%
	8,984,000	CALIFORNIA RESOURCES CORPORATION	5.500	9/15/2021	77.00	6,917,680	0.0%
	2,171,000	CALIFORNIA RESOURCES CORPORATION	6.000	11/15/2024	60.00	1,302,600	0.0%
	35,750,000	CALIFORNIA RESOURCES CORPORATION 144A	8.000	12/15/2022	78.63	28,110,225	0.2%
	77,110,000	CONSOL ENERGY	8.000	4/1/2023	105.63	81,447,438	0.5%

TICKER	SHARES / PRINCIPAL	SECURITY	COUPON RATE (%)	MATURITY DATE	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
	24,876,453	DITECH HOLDINGS	9.000	12/31/2024	82.88	20,616,360	0.1%
	8,150,000	GLENCORE FINANCE CANADA 144A	4.250	10/25/2022	101.36	8,261,113	0.1%
	9,100,000	GLENCORE FUNDING LLC 144A	2.875	4/16/2020	99.17	9,024,771	0.1%
	4,700,000	GLENCORE FUNDING LLC 144A	4.625	4/29/2024	102.42	4,813,673	0.0%
	9,568,600	HALL OF FAME TL	10.854	3/20/2019	100.00	9,568,600	0.1%
	22,938,000	NAVISTAR INTL CORP CV	4.500	10/15/2018	101.15	23,201,787	0.1%
	34,244,000	NAVISTAR INTL CORP CV	4.750	4/15/2019	102.75	35,185,436	0.2%
	3,891,210	RELP-10	9.500	11/20/2017	100.00	3,891,210	0.0%
	33,251,641	RELP-11	10.750	8/5/2018	100.00	33,251,641	0.2%
	7,605,379	SHIP LOAN PARTICIPATION II	11.000	9/4/2018	100.00	7,605,379	0.0%
	38,645,824	SHIP LOAN PARTICIPATION	7.800	12/24/2019	100.00	38,645,824	0.2%
	3,800,000	SOUTHWESTERN ENERGY	4.100	3/15/2022	95.38	3,624,250	0.0%
	14,374,956	WALTER INVESTMENT MANAGEMENT CORP. TL	0.000	12/18/2020	99.00	14,231,207	0.1%
		TOTAL CORPORATE BONDS & NOTES				**507,850,264**	**3.0%**
		RMBS NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATION					
	56,824	STANWICH MORTGAGE LOAN TRUST SERIES 2009-2	0.472	2/15/2049	44.72	25,412	0.0%
	270,985	STANWICH MORTGAGE LOAN TRUST SERIES 2010-1	1.069	9/30/2047	50.58	137,064	0.0%
	2,249,797	STANWICH MORTGAGE LOAN TRUST SERIES 2010-2	1.005	2/28/2057	50.42	1,134,348	0.0%
	222,584	STANWICH MORTGAGE LOAN TRUST SERIES 2010-3	0.000	7/31/2038	50.03	111,359	0.0%
	840,753	STANWICH MORTGAGE LOAN TRUST SERIES 2010-4	1.780	8/31/2049	50.50	424,580	0.0%
	1,345,509	STANWICH MORTGAGE LOAN TRUST SERIES 2011-1	0.192	8/15/2050	52.74	709,661	0.0%
	1,861,110	STANWICH MORTGAGE LOAN TRUST SERIES 2011-2	0.000	9/15/2050	53.52	996,073	0.0%
	908,633	STANWICH MORTGAGE LOAN TRUST SERIES 2012-2	0.000	3/15/2047	42.50	386,169	0.0%
	400,161	STANWICH MORTGAGE LOAN TRUST SERIES 2012-4	0.000	6/15/2051	46.00	184,074	0.0%
	10,511,737	SUNSET MORTGAGE LOAN COMPANY 2015 NPL-1 A	4.459	9/18/2045	100.00	10,511,736	0.1%
		TOTAL RMBS NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATION				**14,620,476**	**0.1%**
		MUNICIPAL BONDS					
	111,230,000	PUERTO RICO COMMONWEALTH - A	8.000	7/1/2035	42.50	47,272,750	0.3%
	7,070,000	PUERTO RICO COMMONWEALTH AQUADUCT	5.000	7/1/2021	79.13	5,594,137	0.0%
	14,598,000	PUERTO RICO COMMONWEALTH AQUADUCT	5.125	7/1/2037	79.13	11,550,667	0.1%
	93,814,000	PUERTO RICO COMMONWEALTH AQUADUCT	5.250	7/1/2042	79.13	74,230,328	0.4%
	9,753,000	PUERTO RICO COMMONWEALTH AQUADUCT	5.250	7/1/2029	79.13	7,717,061	0.1%
	3,883,000	PUERTO RICO COMMONWEALTH AQUADUCT	5.000	7/1/2022	79.13	3,072,424	0.0%
	25,194,000	PUERTO RICO COMMONWEALTH AQUADUCT	5.000	7/1/2033	79.13	19,934,753	0.1%
	16,607,000	PUERTO RICO COMMONWEALTH AQUADUCT	5.750	7/1/2037	79.13	13,140,289	0.1%
	14,655,000	PUERTO RICO COMMONWEALTH AQUADUCT	6.000	7/1/2047	79.13	11,595,769	0.1%
	54,920,000	PUERTO RICO COMMONWEALTH PUBLIC BUILDINGS REF-U	5.250	7/1/2042	42.50	23,341,000	0.1%
		TOTAL MUNICIPAL BONDS				**217,449,178**	**1.3%**
		TOTAL INVESTMENT SECURITIES				**10,611,929,217**	**62.8%**
		U.S GOVERNMENT AND AGENCIES (LONG-TERM)					
	150,000,000	U.S. TREASURY NOTES	0.750	4/15/2018	99.96	149,939,580	0.9%
	200,000,000	U.S. TREASURY NOTES	0.625	4/30/2018	99.91	199,813,420	1.2%
		TOTAL U.S GOVERNMENT AND AGENCIES (LONG-TERM)				**349,753,000**	**2.1%**

TICKER	SHARES / PRINCIPAL	SECURITY	COUPON RATE (%)	MATURITY DATE	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
		U.S GOVERNMENT AND AGENCIES (SHORT-TERM)					
	230,000,000	U.S. TREASURY NOTES	0.875	5/31/2018	99.85	229,662,728	1.3%
	200,000,000	U.S. TREASURY NOTES	1.125	6/15/2018	99.88	199,761,620	1.2%
	291,000,000	U.S. TREASURY NOTES	0.750	7/31/2018	99.64	289,950,450	1.7%
	300,000,000	U.S. TREASURY NOTES	1.500	8/31/2018	99.83	299,483,910	1.8%
		TOTAL U.S GOVERNMENT AND AGENCIES (SHORT-TERM)				**1,018,858,708**	**6.0%**
		COMMERCIAL PAPER					
	100,000,000	APPLE	1.550	4/5/2018	99.98	99,982,778	0.6%
	50,000,000	APPLE	1.560	4/6/2018	99.98	49,989,167	0.3%
	99,000,000	APPLE	1.570	4/9/2018	99.97	98,965,460	0.6%
	50,000,000	APPLE	1.590	4/11/2018	99.96	49,977,917	0.3%
	50,000,000	APPLE	1.590	4/12/2018	99.95	49,975,708	0.3%
	39,000,000	APPLE	1.600	4/12/2018	99.95	38,980,933	0.2%
	100,000,000	APPLE	1.600	4/13/2018	99.95	99,946,667	0.6%
	50,700,000	APPLE	1.650	4/19/2018	99.92	50,658,172	0.3%
	100,000,000	APPLE	1.650	4/23/2018	99.90	99,899,167	0.6%
	75,000,000	APPLE	1.660	4/25/2018	99.89	74,917,000	0.4%
	75,000,000	APPLE	1.690	4/30/2018	99.86	74,897,896	0.4%
	75,000,000	APPLE	1.780	5/2/2018	99.85	74,885,042	0.4%
	60,000,000	CHEVRON	1.920	5/18/2018	99.75	59,849,600	0.4%
	30,000,000	COCA COLA	1.580	4/6/2018	99.98	29,993,417	0.2%
	50,000,000	COCA COLA	1.750	4/27/2018	99.87	49,936,806	0.3%
	148,400,000	COCA COLA	1.760	5/4/2018	99.84	148,160,581	0.9%
	25,000,000	COCA COLA	1.860	5/18/2018	99.76	24,939,292	0.2%
	50,000,000	COCA COLA	1.870	5/18/2018	99.76	49,877,930	0.3%
	25,000,000	COCA COLA	1.870	5/21/2018	99.74	24,935,069	0.1%
	4,282,000	COCA COLA	1.870	5/22/2018	99.74	4,270,656	0.0%
	50,000,000	COCA COLA	1.870	5/24/2018	99.72	49,862,347	0.3%
	100,000,000	EXXONMOBIL	1.480	4/2/2018	100.00	99,995,889	0.6%
	75,000,000	EXXONMOBIL	1.640	4/4/2018	99.99	74,989,750	0.5%
	100,000,000	EXXONMOBIL	1.720	4/10/2018	99.96	99,957,000	0.6%
	100,000,000	EXXONMOBIL	1.800	5/9/2018	99.81	99,810,000	0.6%
	100,000,000	EXXONMOBIL	1.850	5/14/2018	99.78	99,779,028	0.6%
	100,000,000	EXXONMOBIL	1.870	5/22/2018	99.74	99,735,083	0.6%
	74,000,000	GENERAL ELECTRIC CAPITAL SERVICES	1.830	4/19/2018	99.91	73,932,290	0.4%
	100,000,000	GENERAL ELECTRIC COMPANY	1.780	4/24/2018	99.89	99,886,278	0.6%
	100,000,000	GENERAL ELECTRIC COMPANY	1.780	4/26/2018	99.88	99,876,389	0.6%
	100,000,000	GENERAL ELECTRIC COMPANY	1.780	4/27/2018	99.87	99,871,444	0.6%
	56,000,000	PEPSICO	1.850	5/1/2018	99.85	55,913,667	0.3%
	100,000,000	PROCTER & GAMBLE	1.560	4/2/2018	100.00	99,995,667	0.6%
	155,000,000	PROCTER & GAMBLE	1.830	5/3/2018	99.84	154,747,867	0.9%
	3,750,000	ROCHE HOLDINGS	1.810	5/8/2018	99.81	3,743,024	0.0%
	55,500,000	ROCHE HOLDINGS	1.830	5/8/2018	99.81	55,395,614	0.3%
	66,000,000	TOTAL CAPITAL	1.950	4/30/2018	99.84	65,896,325	0.4%
	100,000,000	WAL-MART STORES	1.620	4/16/2018	99.99	99,991,111	0.6%
	25,000,000	WAL-MART STORES	1.620	4/16/2018	99.93	24,983,125	0.2%
	75,000,000	WAL-MART STORES	1.650	4/16/2018	99.93	74,948,437	0.5%
	75,000,000	WAL-MART STORES	1.650	4/17/2018	99.93	74,945,000	0.4%

TICKER	SHARES / PRINCIPAL	SECURITY	COUPON RATE (%)	MATURITY DATE	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
	75,000,000	WAL-MART STORES	1.650	4/18/2018	99.92	74,941,562	0.4%
	100,000,000	WAL-MART STORES	1.730	4/20/2018	99.91	99,908,694	0.6%
	150,000,000	WAL-MART STORES	1.830	4/23/2018	99.89	149,832,250	0.9%
	19,755,000	WAL-MART STORES	1.660	4/24/2018	99.89	19,734,049	0.1%
	100,000,000	WAL-MART STORES	1.900	4/25/2018	99.87	99,873,333	0.6%
	100,000,000	WAL-MART STORES	1.850	4/30/2018	99.85	99,850,972	0.6%
	70,000,000	WAL-MART STORES	1.850	5/7/2018	99.82	69,870,500	0.4%
		TOTAL COMMERCIAL PAPER				**3,577,305,953**	**21.2%**
		REPURCHASE AGREEMENTS					
	37,222,000	STATE STREET BANK/FICC REPO			100.00	37,222,000	0.2%
		TOTAL REPURCHASE AGREEMENTS				**37,222,000**	**0.2%**
		CASH & EQUIVALENTS				1,301,183,849	7.7%
		TOTAL CASH & EQUIVALENTS				**6,284,323,510**	**37.2%**
		TOTAL NET ASSETS				**$ 16,896,252,727**	**100%**

NUMBER OF COMMON STOCK (LONG ONLY)	**48**
NUMBER OF FIXED INCOME SECURITIES (LONG & SHORT-TERM)	**50**

* Indicates foreign security.