Q1 2021 FPA Crescent Fund (FPACX) Webcast
April 29, 2021

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You should consider FPA Crescent Fund's (the "Fund" or "Crescent") 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 the Prospectus carefully before investing.

(00:00:00)Moderator: [Please reference slide 1] Hello, and welcome to today's webcast. My name is Shannon and I'll be your event specialist today. All lines have been placed on mute to prevent any background noise. Please note that today's webcast is being recorded.

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

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

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

Ryan: Thank you, Shannon. Good afternoon, everyone, and thank you for joining us today. We would like to welcome you to FPA Crescent's First Quarter 2021 Webcast. My name is Ryan Leggio and I'm a partner here at FPA.

Before we get started, I want to mention that FPA has recently started posting firm and fund updates on our LinkedIn page. We encourage you to follow us to receive timely information going forward.

The slides, audio, visual replay and transcript of today's webcast will be made available on our website FPA.com in the coming days.

Momentarily you will hear from Steven Romick, Brian Selmo and Mark Landecker, the portfolio managers of our Contrarian Value Strategy, which includes the FPA Crescent Fund. Steven has managed the FPA Crescent Fund since its inception in 1993, with Brian and Mark joining Steven as portfolio managers in June of 2013.

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

(00:02:00)

Steven: Thanks, Ryan. Thank you for taking the time to join today's call as Brian, Mark and I review recent performance of the FPA Crescent Fund and its current positioning, as well as some broader views of the current investing landscape.

[Please reference slide 2] While we have the longer-term performance here at the onset for disclosure purposes, we will address it more fulsomely as we move through the presentation.

[Please reference slide 3] Reflecting on the past year, we submit that we are probably not as dumb as we appeared last March, but we also don't believe we are as smart as we may presently appear. The truth I'm sure lies, or hope anyway, lies somewhere in between, which is one of the reasons we continue to encourage our shareholders to think in terms of market cycles and rolling five-year periods.

Beginning in Q4 2020, Crescent's performance began to rebound as investors started to look to the reopening of the global economy. That strong relative performance has continued thus far into 2021.[1] One takeaway is that the past year demonstrates the need to block inevitable noise associated with market volatility.

[1] Note: The Fund does not include outperformance of any index in its investment objectives. Comparison to an index or to the market is for

Now that the Fund has seen many of its companies favorably rerated, there isn't as much so-called juice from the portfolio, at least over the short term anyway. However, [we believe] the collection of good-to-great businesses trading at not excessive prices should set us up reasonably well over the intermediate to longer term. We believe that the underlying business quality is higher than it has been historically, and that provides us some comfort in being more invested on average than we have been in the past. We do our best to avoid those securities where the potential return doesn't justify the risk, which has kept us away from some of the excessively priced equities and high yield bonds. Importantly, and despite not having made great use in recent years of the unusual breadth of tools available to Crescent, we still hope for some future time when high yield and distressed can once again play a more significant role in the portfolio.

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[Please reference slide 4] Crescent's ability to broadly invest across asset classes, market caps and regions is relatively unique in the public fund space. Crescent affords those who prefer to not make those asset allocation decisions themselves with a vehicle that will hopefully provide good risk-adjusted returns over time—returns that are equity-like but not entirely equity market-centric.

[Please reference slide 5] Although Crescent's performance this past quarter was not unexpected, we had no idea that the strong performance of its underlying securities would occur when it did. After having increased our allocation to risk securities during the Q1 2020 selloff, by the time last fall rolled around, we found ourselves holding a collection of companies that we considered to be some combination of relatively and absolutely cheap. Although the broader market seems to have recognized in recent months that a segment of the market was mispriced, these shares could have remained unappreciated for longer.

The stock prices of many underappreciated good businesses that have been left behind in the market's rally since the pandemic lows of last year continued to capture investor interest. The

illustrative purposes only.

Fund has been a beneficiary of this, generating 182% of the average of the S&P and MSCI ACWI return the first quarter, far outperforming its own average 77% risk exposure.[2]

The trailing 12-month return was largely in line with the illustrative indices, generating 99% of the blended index returns, but still outperforming its own 77% average net risk exposure.

The 12.95% increase in the Fund's long equity book for the quarter drove the Fund's 9.76% return in the period, allowing it to [perform favorably compared to the indices] shown here.[3]

[Please reference slide 6] I think everyone realizes there has been a trend reversal in the recent couple of quarters, with value outperforming growth. Value indices delivered 8 to 10 points more return in Q1 than the growth indices, which posted a negligible gain.

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The value rebound really kicked in last November, as people around the world began to receive, you know, the vaccine and, with a collective sigh of relief, seemed to become more willing to consider investing in those businesses that have been hurt due to the pandemic, some of which populated Crescent's portfolio.

[Please reference slide 7] From November 9, [2020], when the vaccine was first announced, through the end of Q1, Crescent returned [approximately] 23%, slightly in excess of the value indices and far better than the single-digit returns of the growth indices.

[Please reference slide 8] On a trailing 12-month basis though, Crescent falls more into the middle of the pack, about as much behind the growth indices as it was ahead of the value indices and at about the average of the broad S&P and ACWI[indices]. But as I mentioned earlier, Crescent's performance was delivered with [average] net risk exposure well below the market.

[Please reference slide 9] We pointed out in our year end conference call that 2020 was one of our worst relative years in a couple of decades, but the strong recent performance is a good reminder of what patience and discipline can deliver over time.

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2 **Past performance is no guarantee, nor is it indicative, of future results.**

3 Comparison to the indices is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

Crescent's long equity book has now bested the S&P by 1.6% annualized since 2007, and beaten the ACWI by a wider 4.9% margin since we expanded our capabilities to invest more overseas in 2011.[4]

[Please reference slide 10] There are no substantive changes in the business prospects in any of the major contributors and detractors. AIG [American International Group] and Jefferies, two of the better contributors for the trailing 12 months, were amongst the largest detractors for the year over the Q1 2020 trailing 12-month period [period ending 3/31/2020].[5] The subsequent rebound in their share price speaks to what we have previously maintained—that the businesses of these two companies have not changed enough to warrant their stock price declines. This has proven true for much of the portfolio.

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[Please reference slide 11] While markets will do what they'll do over the short term, our focus will continue to be on the long term for which we believe we are well-positioned, with a focus on quality, growing businesses at fair-to-good prices.

As laid out in this table, the Fund's long equity positions are more expensive today than six months ago,[6] but still cheaper than the market, albeit not quite as discounted. And if consensus estimates are correct, our companies are expected to grow faster in the next few years.

[Please reference slide 12] The Fund ended 2020 with about 80% net risk exposure. Given the strong performance of the Fund's risk assets, its net exposure would have increased had we sat still. Instead, we have selectively sold into market strength, allowing that exposure to decline by about 5 percentage points to [approximately] 75%. Net equity exposure is down about 3.4

[4] Long equity holdings only includes equity securities excluding paired trades, short-sales, and preferred securities. The long equity performance information discussed herein is for illustrative purposes only and may not reflect the impact of material economic or market factors. No representation is being made that any account, product or strategy will or is likely to achieve profits, losses, or results similar to those discussed. Long equity performance does not represent the return an investor in the Fund can or should expect to receive. Fund shareholders may only invest or redeem their shares at NAV. **Past performance is no guarantee, nor is it indicative, of future results.**

[5] Trailing 12-Month contribution performance as of 3/31/2020 for American International Group (AIG) and Jefferies was -1.15% and -0.63%, respectively.

[6] As indicated by the 1-Year Forward Price to Earnings ratio.

percentage points to 69.7%, while its already small net credit exposure has shrunk 2 percentage points to a negligible 2.5% [net exposure].

[Please reference slide 13] While similar to the fire sale in international stocks, we are still finding better relative value outside the United States. A lower valuation on its own though does not warrant a place for a stock in [the Funds] portfolio. Those slots are reserved for growing businesses. We have been fortunate to find such companies in the last couple of years, which explains our 43% exposure as a percent of our net equity investments to foreign-domiciled companies including global companies like LafargeHolcim, Groupe Bruxelles Lambert, Glencore and Richemont to name a few.[7] This is the largest exposure to international companies [the Fund] has ever had.

[Please reference slide 14] On a price-to-sales basis, both growth and value stocks are trading at historically high levels, and we say this with eyes wide open, knowing that there is a very fuzzy line that separates growth and value.

We are pleased with the improvement in the overall quality of businesses that we hold but we cannot ignore the rally in both the market and in many of our companies. The rising tide has lifted most stocks, both growth and value, but a significant valuation gap remains despite the recent strong performance of some downtrodden names.

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[Please reference slide 15] Some of this gap can be attributed to many companies that have very high valuations despite a lack of profits. There are more unprofitable public companies today than in any point in time since the turn of the century dot-com bubble.[8]

This chart shows that close to 200 of the largest 1,500 public companies have posted losses in each of the last three years. Despite consistently losing money, these companies have an aggregate [market] value of almost $2.5 trillion. However, just because a company isn't making

[7] Portfolio composition will change due to ongoing management of the Fund. References to individual securities or sectors should not be construed as a recommendation by the Fund, the portfolio managers, the Adviser, or the distributor to purchase or sell such securities or invest in such sectors, and any information provided is not a sufficient basis upon which to make an investment decision.

money today doesn't mean that will be the case in the future, and they might even make enough money to justify its current valuation? However, that's a lot of betting on the come. We doubt that all of these companies will end up justifying the price that investors are currently willing to pay.

[Please reference slide 16] Given the recent market rally, the least expensive part of the market now trades at a more typical discount. While we don't own the market, so to speak, as previously mentioned, many of our companies aren't as cheap as they were. This leaves less gas in the tank over the near term. We have, however, avoided owning those names that are more in the speculative pockets of the market—not necessarily because we don't think that some of these business models are compelling but rather because in the majority of businesses it strikes us that valuations already incorporate optimistic expectations. While these names may not look attractively valued today, we're nonetheless actively studying and researching tomorrow's leaders so we will be able to act opportunistically whenever the next market [opportunity] arrives.

This brings us full circle to our actions over the last 12 months, where we strategically use market weakness to upgrade the portfolio and to own those better-quality global businesses where investors are not willing to look past temporary challenges, as well as those companies that we think are reasonably priced but should grow and grow—earnings and cashflow that is—for years to come.

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As a result, we now find ourselves with a portfolio whose underlying quality is higher than at any point I can recall. And for this reason, we took comfort in being more invested than has been our average over the past three to five years.

[Please reference slide 17] High yield bonds have offered very poor yields in recent years, and we haven't had a distressed cycle since the 2008-2009 downturn. The insignificant yields in this sector has kept us away.

[8] The dot-com bubble (also referred to as the tech- or internet bubble) peaked in March of 2000.

Just because we can invest in an asset class doesn't mean that we should. If we had lowered our standards though and owned higher yield, Crescent's performance certainly would have benefited as the combination of lower rates and tighter spreads have increased corporate bond prices. The high yield market's good performance is in spite of increasing corporate leverage, declining average credit quality, and weaker covenants for borrowers—or weaker covenants for lenders.

When money costs almost nothing, or even less than nothing, it perverts price discovery. If there is no cost to capital, then one theoretically can pay an infinite price for assets, which creates a difficult backdrop for investors such as ourselves, who insist on a margin of safety. The US Federal Reserve [the "Fed"] and European Central Banks ["ECB"] are doing their best to inhibit what should have been an historic opportunity to buy high yield debt. Low and negative interest rates take money away from savers and lenders, and give it to borrowers and investors, including speculators. Price discovery has been lost.

Investors thirsty for yield, and the Fed and the ECB's purchase of high-yielding corporate bonds has propped up prices at higher levels than otherwise would be.

[Please reference slide 18] While high yield has been interesting, we have found a place to put some capital we believe offers a better risk-adjusted return than high yield while offering some upside. The SPAC market has exploded in the recent couple of years. These so-called "blank check" companies have raised almost $200 billion in the last year and a half. The sponsors of these SPACs are out there actively looking for acquisitions. There's been a lot of excitement around what might be. I'm sure there will be some good acquisitions, but there'll also be a host of bad ones.

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[Please reference slide 19] At the peak this past February, investors passionately bid the average SPAC without an announced deal up to more than 25% of its trust value or net asset value. Interest has waned and prices have since fallen to levels where there is only a negligible premium, leaving many SPACs trading at a discount. We have been accumulating some of these busted SPACs, many of which have attached warrants. If a deal is announced that we don't like, we can redeem our shares at or above our purchase price.[9]

But there may be a few deals in our SPAC basket that may be good. In that case, a SPAC price may rise and all of us can exit at a premium to our purchase price. We like this setup, where you make a little bit of money on the downside, you have retained an option for some good upside.

[Please reference slide 20] Before we turn to Q&A, I'm going to have to close on unfortunately a very sad note. I would like to just take a moment and reflect on the tragic passing this week of my friend Charles de Vaulx, a former portfolio manager of First Eagle Global and cofounder of the IVA Funds. Charles was a thoughtful individual and, as it relates to value investing, he was a true practitioner of the craft. He had an enquiring mind that wouldn't rest. A dinner with Charles would go on for hours but would feel like minutes. Those of us here at FPA who had the pleasure of knowing Charles over the years will certainly miss him. We extend our deepest condolences to Charles's family and friends during this difficult time.

I'm going to now turn to Q&A.[10]

We received a number of—oh, this is, as an opening, as usual, if we're in the middle of transacting or considering transacting in a security, we won't be commenting on it. If it's a question to which we really don't have a good answer because it is outside of our circle of competence, we won't answer that either.

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[9] SPACS involve risks. SPACs are not required to provide the depth of disclosures or undergo the rigorous due diligence of a traditional initial public offering (IPO). Investors in SPACs may become exposed to speculative investments, foreign or domestic, in higher risk sectors/industries. SPAC investors generally pay certain fees and give the sponsor certain incentives (e.g., discounted ownership stakes) not found in traditional IPOs. Certain conflicts of interest may arise between investors and sponsors because of these fees and incentives. **Past performance is no guarantee, nor is it indicative, of future results.**

[10] References to individual securities or sectors should not be construed as a recommendation by the Fund, the portfolio managers, the Adviser, or the distributor to purchase or sell such securities or invest in such sectors, and any information provided is not sufficient basis upon which to make an investment decision.

To that end, we've received a number of questions that asked us to opine on the future direction and timing of the markets, economy, interest rates, and value versus growth trade and when that ends or goes back one way or the other, and more.

Our answer for all of them is we don’t know. You will be better served if we focus on finding and understanding quality businesses to own at good prices. Surely, as indicated by our Q1 2020 performance, our crystal ball isn’t great.

There's a question about shorting stocks, where they’ve averaged 5% for Crescent and they were just few percent in March of 2021. Despite record stock market valuations, would we consider additional short opportunities?

And I think it’s a good time to take a moment and step back and talk about why we short stocks. We have three kinds of shorts: absolute shorts, paired trades and intercompany arbitrages.

Our absolute shorts are those companies, those businesses that [we think] are fundamentally flawed. Paired trades are those shorts that have some business overlap with an existing long position that we think is of higher quality and/or better valuation. And intercompany arbitrages, where one public company has a stake in another public company, by shorting their investment stake, we can potentially create a stub at an attractive valuation.

The absolute shorts have never been a large part of the Fund, and they are particularly more dangerous today thanks to short squeezes, some of which have been tied to social media. We are thankful that we haven't shorted the many already expensive stocks that have then doubled, tripled and more in the last year. It’s important to remember that the most one can make on a short, if you get the trade perfect, is 100%. But you can lose multiples of that, and whatever money you make is short-term capital gain. Not that that might matter in the future.

The paired trade/intercompany arbitrages are episodic, and we take advantage when opportunity arises.

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There's a question about inflation expectations and how does that impact your investment process. This is not specifically asking us about what inflation might be, so I appreciate the framing of this question.

And although we don’t know that level, given what it might be in the future, given the very low level of interest rates today and the aggressive fiscal and monetary policies in developed economies, we’d not be surprised to see higher levels of inflation in the future. Therefore, we remain mindful that holding too much cash could prove detrimental to optimizing return over time, which also argues for being more invested than we have historically been on average.

There's a question with respect to some privates, a couple of questions that are lumped together, wondering if we still own farmland and what is our time horizon when we hold private equity, and is there any income from those investments.

[As of March 31, 2021] we have very little in private equity investments, just about 1.25%. On occasion, there's been some income but that's not been a driver.

Given that Crescent is an open-ended mutual fund, we would only ever target a small position in private equity, in anything at all. We still own a very small amount of farmland, but that’s already been sold down and is in the process of liquidation. We also hold a very small position in privately held Epic Games. We made the investment last year amidst tumult in the market, and sized it rather modestly as a result of the aforementioned need to largely make investments in more liquid securities. We did make Epic a larger position in the closed end fund Source Capital that we also manage, as it’s a permanent capital vehicle and therefore better suited for less liquid investments.

I’m going to turn it over to Mark Landecker for a couple of questions. Mark, I’m not sure if you have the list in front or if you want me to read the questions to you? The first one is on tech holdings.

Mark: Steve, why don’t you read the question and then I’ll jump in.

Steven: Okay. What's the Fund's view on upside/downside risk on the big tech holdings, and how did those Fund holdings change in the last quarter?

(00:19:54)

Mark: Sure, so I don't think there was much change in the big tech holdings of the Fund this past quarter.

As for the upside/downside ratio, we don't really look at the names this way. And let me elaborate a little.

With classic value names, one will often get involved when you believe the company's underearning and profitability should revert to the mean and get back to a level similar to what it was in the past. Despite the lack of growth, you can do well if you opportunistically buy at a discount to what is likely to be a rather static intrinsic value. But as a starting point, you're typically looking in the rear windshield and historical financial statements as a guide to the earnings power of the business.

In contrast, with growth companies such as our tech holdings, the attraction is that if we are right in our thesis, the intrinsic value is increasing over time. For this reason, you want to look out the front windshield and where the car is going, and not where it's been.

So, with big tech, one is less concerned with the traditional upside/downside risk because as long as you pay a fair and sensible price, as we are wonted to do, [we expect] the company is going to grow into its valuation sooner rather than later, even if there are a few bumps in the road along the way.

But I think it's helpful to bring this full circle by looking at some numbers. The S&P 500 Value Index, which I never knew existed until I went looking on Bloomberg last night, has LTM [Last Twelve Months] sales that are basically flat going back to 2013. And even worse, earnings are actually down modestly over this multiyear period. So, forget about looking out either the front or back windshield. The car basically has a flat tire and your view hasn't changed over the past seven years.

Now let's look at a couple of big tech companies in the portfolio, starting with Google. If you look back to 2013, the company generated $55 billion of revenue and $15 of EBIT [Earnings Before Interest and Taxes] for the full year. Roll forward to Google's Q1 2021 results that were reported just the other day, and the company basically generated the same amount of revenue and EBIT in just a single quarter.

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If you look at the same comparison for Facebook, you had a company in 2013 that generated almost $4 billion in revenue and $1.8 billion of EBIT. That compares to $26 billion of revenue and $11 billion of EBIT during just Q1 2021. [11]

Now, one can make money investing in both big tech and the constituents of the S&P 500 Value Index. But generally speaking, the former are going to be compounders, and the latter more commercial opportunities in which you don't want to overstay your welcome.

So, in conclusion, we have no idea where these big tech companies may trade over the coming 12-24 months but over a multiyear period, we think we will see their intrinsic value increase as a result of organic growth and astute capital allocation.

Steve, back to you.

Steven: Yes, thanks, Mark. We had a question that came through as Mark was speaking, where apparently, it's a little bit hard to hear Mark. We hear him fine in our end. We're not sure why that's an issue. But two things I will note. One, there will be a transcript available after the call that you will eb able to access. And secondly, Mark, in this next question and the future questions that get posed, if you wouldn't mind just speaking up a little bit. Again, on our end, we hear you fine but apparently on the conference call at large, it's a little bit more challenging.

[11] Based on Alphabet 1st Quarter 2021 Financial Results reported on April 27, 2021 and Facebook Q1 2021 Financial Results reported on April 28, 2021.

This next question is for you. Is the 30,000-foot strategy still to earn more over the full cycle by losing less in down markets? Could any monetary/fiscal environment influence that approach? How might the Fund fare in a significant correction today?

Mark: Sure. So, before I answer, I just want to make a clarification to the question as it was posed. While it goes without saying that we would always like to do better than the market over time, our goal, as we have publicly communicated now for many years, is to deliver equity-type rates of return while avoiding permanent losses of capital over the long-term. And that's not changed at all.

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Now, as much as I'd like to be able to tell you how the Fund would perform if there was a significant correction today, it's really a difficult question to answer. Going into the pandemic last March, we actually would have thought our portfolio was reasonably well-positioned to enter a potential economic slowdown.

Our net equity exposure at the end of December 2019 was only [approximately] 55% and we had very modest exposure to high yield. But what we didn't expect was a global pandemic that would lead our aerospace companies, despite their focus on recurring revenue, to see profitability fall as far as it did. When combined with our exposure to financials as well as some modest exposure to some levered equities, the volatility exhibited by the portfolio was, candidly, greater than we would have expected from a typical economic recession.

Now, that's where we were, and your question asks: what about where we are today? Well, as we wrote in our most recent commentary, and Steven mentioned earlier in the call, we believe we used the past 12 months following the COVID correction to significantly upgrade the quality of the portfolio. Now, that doesn't mean we can see the future and tell you how the portfolio will perform if a correction does arrive tomorrow but, given the underlying quality of the businesses in the portfolio present, we can tell you that we are absolutely comfortable running more invested than we have been over the past few years. Steven?

Steven: Thanks, Mark. I'm turning over to Brian for a series of questions.

Brian: Thanks, Steve. The question is: in a bull market like this with the Fed promising to keep rates low, how do you decide when to sell and take profits? That is, how can anyone determine when a stock has reached its intrinsic value?

And so, like the previous question, I would agree that this is a difficult and challenging question, and I don't think that there is a right answer. I think first, you have to distinguish between and understand what you hold and what you own.

(00:25:55)

So, continuing on Mark's discussion, we can imagine on one side a type of business that doesn't grow its intrinsic value—you can think about it as a static lockbox of cash. This is maybe similar to our investment in Puerto Rican restructuring bonds years ago. Or you can think about another business on the other side that looks more like a perpetually growing stream of cash flow that doesn't require capital to maintain or grow and has prospects to grow at an attractive rate for a long time. That might be more similar to Facebook or Alphabet.

Now, if we're in a business or a situation that is more like the lockbox, that's a situation where, as it appreciates towards intrinsic value—intrinsic value is static, it's a pretty useful concept—and as the price goes up, the prospective return goes down because the value's not going up, and the possibility for negative returns increases. So, the convexity, negative convexity of the position, worsens and worsens as price goes up.

So, in that case, as those positions approach or reach intrinsic value, we [seek to] sell them outright without really any regard to what the Fed might or might not be doing.

Now, if a business is growing and likely to continue to increase in value, we endeavor to hold those as long as we think the business remains strong and the price has not reached a point from which one cannot earn a reasonable return over the long term, under a reasonably conservative set of assumptions.

But it's a tough question because very few things are really ever discrete lockboxes of cash or ever-growing streams of cash flow. And any growing stream of cash flow is subject to certain levels of risk and uncertainty, making this a judgment call really at all times, whether rates are low or rates are high.

I'll move to the next. Do U.S. banks have value, with the idea of inflation potentially coming? And I'm going to wrap this into a couple of questions that have come in as well. You seem to be selling down bank exposure despite what appeared to be reasonable valuations. What's causing this?

(00:28:05)

And so, I think I'll answer generally and—I'll answer generally. It really, for this question, I mean I suppose it depends on the question, on the level of inflation and the pricing of the bank and the bank's particular business model in terms of how capital-intensive it is. I think it's true that we have less bank exposure. We have sold some down in response to pricing. But I think most banks can increase value over time. They're certainly capital-intensive and have more of a limited growth profile than a business that doesn't require the same amount of capital to grow.

And then I think the other thing that I would observe is that banks are going to tend to be somewhat restricted in terms of their ability to expand their return on capital, by essentially market forces. Because fundamentally, they offer a commodity on both sides of their business. And so other than relative competitive advantages, I don't think that a higher inflationary environment is necessarily positive for banks' real return on tangible equity.

And so, we continue to think about them as interesting businesses and things that you want to manage and limit in a portfolio, because they do have intrinsic risks of leverage. And there are things that we probably want to own more of when they trade with an amount of stress, or at discounts to tangible book, and there are things that we want to own less of, again all things equal, if they trade at meaningful premiums to tangible book. And you've seen that valuation dynamic change quite a bit—actually, dramatically in the last 12 months, we were just a freezeframe a year ago. And you've seen that also then manifest itself in our portfolio in having a bit less exposure over the last, call it, quarter.

(00:30:02)

There's another question: what is the rationale for continuing to hold PG&E given their massive liabilities?

So, I'll just be quick and direct. I think we think the legislation has effectively shielded California utilities from catastrophic wildfire risk. And so, with that as perspective, [we believe] PCG or Pacific Gas & Electric has a clear regulatory and approved path to above-peer earnings growth over the next five years. The company trades at an undemanding absolute multiple of approximately 10 times this year's earnings. And [we think] the company should have an attractive yield when they reinstate the dividend.

So, assuming that all that holds, we would expect the shares to appreciate over time. We think there will be a combination of earnings growth and a reasonable likelihood of multiple expansion.

Now, if we are wrong about the potential future liabilities, or the law does not work as it's generally understood, this investment will not do well.

Last question of the prepared or the presubmitted question is—and I think Steve addressed this, but distressed special situations restructuring opportunities.

You know, the credit exposure shrunk in the quarter, and we really don't have anything new in the on-deck circle. I would argue that that SPAC trade that Steve mentioned is sort of a special sit restructuring type of investment, but in terms of traditional credit, really nothing right now.

Steven: There is a question that says: it seems that many investors break growth down into FAANG and the unprofitable speculative names, but there is a lot of opportunity between those two extremes when you're looking at tech opportunities in this type of area.

As I mentioned earlier in the call, I said just because a company's losing money doesn't make it a bad investment, and we certainly are, as I had mentioned, that we're looking at the tomorrow's—the businesses that will be tomorrow's leaders. So, and I think there's a great lesson that sits at the forefront of our minds, or Mark, Brian's and myself, which is a company called Amazon and a company that we never owned in the portfolio, and one can certainly reasonably argue that we should have. So, with that in mind, and after reading "The Everything Store", we do want to make sure that we are mindful of what's coming down the pike.

(00:32:24)

Brian: I think the quick answer is that yes, we're looking at everything in between.

Steven: You say that you don't own—yes, go ahead, Mark. Mark, please go ahead.

Mark: Oh, I was going to add, even actually in our undisclosed positions we've been accumulating and haven't revealed, you would see names that fall in that category. We just haven't disclosed them yet because we hope to make them bigger, at better prices going forward. But you'd think, within there, there's some software businesses, internet marketplaces, so on and so forth, not to mention even if you look at the portfolio, we have a number of tech holdings that we've been involved with for quite some time that would fall into to the things you are talking about, whether those be Chinese internet stocks, semiconductor companies, so on and so forth. So, there's no—we don't have an aversion to investing in tech; we just want to do it in a judicious manner as it relates to price.

Steven: Thanks, Mark. You say that you don't try to time markets to make calls, but isn't holding in cash a call in the markets?

Cash, as we've oft commented, is a byproduct of our investment—we have some kind of feedback coming from someplace. Mark, is that you?

We have oft—sorry about that. We have oft commented that our cash is merely a byproduct of our research process and if our portfolio was cheap across the portfolio, you'd expect us to be more exposed. And as it become more expensive, you'd expect cash to build by default. It's certainly not a top-down call.

(00:33:58)

Brian: There's a question: do you still like Jefferies?

I think, you know, the short answer is yes. But it's a business that we like price-dependent. A few years ago, we would have had their CEO Rich Handler at our Investor Day. We're very impressed with the performance that he's achieved in the business in both reshaping it and also managing the core investment banking franchise over the time period that we've held the company. And you know, for much of that time, the company traded at a meaningful discount to tangible equity value, and today it trades, or certain periods in the first quarter, it traded at meaningful premiums. And so, there's just a different size in our mind for a business like that depending on the value it's trading at. But we still have the same feelings and view of the company.

Steven: There's a question about the—is there any significance to the 2.6% options, warrants and other, and there isn't. I mean, it's—any movement within that is, those are a fair bit of noise. So there is no significance to those positions. There're no great calls being made within that.

Mark: I'll take—there's a couple of questions about Alibaba with respect to regulations, competition, so on and so forth.

You know, just to sum up, it sort of says about what's our biggest worry. I think we worry about all our companies. If they're doing well, we worry the valuation's getting stretched. If we're not doing well, if they're not doing well, we worry about why not. Alibaba, there is increased competition, most significantly from PDD, from JD, from some of the social platforms that are getting into ecommerce. But we never bought Alibaba thinking that it was going to have, or be able to hold onto, 80% of e-commerce in China. And e-commerce really isn't a winner-take-all market, even in the United States with Amazon.

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And so, if you look at Alibaba, it's actually a multidimensional company with a lot going on. They've got a cloud business, where they're the leading provider in the country. They've got international operations. They've got obviously a fabulous e-commerce business for business-to-consumer as well as for consumer-to-consumer, not to mention media investments, they've got holdings in privately listed companies, holdings in publicly listed companies. And there's even businesses they have that get almost no mention but are huge in scale. So, if you think about when I was reading the Microsoft call a couple of days ago, they called out they have 145 million users of Teams, which many of you are now probably familiar with over the past year. There's a product called DingTalk in China that would be the, call it, Chinese equivalent of Teams. It's owned by [Ali]baba, run by [Ali]baba. That has, last I saw, 300 million plus users and over 15 million corporate users.

So, when we think about Alibaba, we think of it really as a bit of a conglomerate—and I haven't even mentioned Ant Financial in there either. So, what we think is we have tremendous optionality. [They] have a management team at multiple levels who are very driven and have a reputation for being excellent operators. And we think the value's particularly attractive, albeit there are some challenges ahead, but just like our other big tech companies that we've held for many years, they have faced challenges over time and in the end, increased the intrinsic value. So, we hope the same to come for [Ali]baba.

Steven: Those were the questions that we had that we've addressed that have come across the transom since the call started, and the ones that were presubmitted. If there was some additional question that you have, please reach out to Ryan Leggio or another member of our client relations team. Ryan will close the call, and we appreciate you taking the time, look forward to chatting with you next quarter.

Ryan: Thanks, Steve, Mark and Brian. And thank you for listening to FPA Crescent's First Quarter 2021 Webcast. We now turn it over to the system moderator for closing comments and disclosures. Thank you.

Moderator: [Please reference Important Disclosure Section, slides 24-28]] Thank you for your participation in today's webcast. We invite you, your colleagues and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website within a few days at FPA.com. We urge you to visit the website for additional information about the funds, such as complete portfolio holdings, historical returns, and after-tax returns.

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

Please visit FPA.com for future webcast information, including replays. We post the date and time of upcoming webcasts towards the end of each current quarter, and webcasts are typically held three to four weeks following each quarter end.

If you did not receive an invitation via email for today's webcast and would like to receive them, please email us at crm@fpa.com.

We hope that our quarterly commentaries, webcasts, and special commentaries will continue to keep you appropriately informed on the strategies discussed today. We do want to make sure that you understand that the views expressed on this call are as of today, and subject to change without notice based on market and other conditions. These views may differ from the other portfolio managers and analysts at the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

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

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