Q3 2021 FPA Crescent Fund (FPACX) Webcast
October 28, 2021

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

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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. The Prospectus for the Fund dated April 30, 2021 can be accessed at: https://fpa.com/request-funds-literature, by visiting the Fund's website at www.fpa.com, by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.

(00:00:01)

Moderator: [Please reference slide 1] Hello, and welcome to today's webcast. My name is Sarah and I will 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 by locating the Q&A panel on the left side of your screen, type your question in the open area, and click New Question to submit.

For optimal viewing and participation, please disable your pop-up blockers. And finally, should you need technical assistance, as a best practice we suggest you first refresh your browser.

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

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

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.

[Please reference slide 2] The team will address performance in more detail during the call but we include long-term performance here for disclosure purposes.

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

Steven: [Please reference slide 3] Thank you very much, Ryan. I hope everybody on the call is doing well, and we thought we'd be having this call a year ago post-COVID but we're clearly not, but we do hope the best for you and your family.

Crescent has performed well in 2021. Although we appreciate that a partial year does not a track record make, many of the companies we hold aren't as inexpensive as they were earlier this year. As one might expect, that has caused our net exposure to decline somewhat. We believe that the Fund is relatively well-positioned, owning what we believe to be a collection of good to great businesses that trade at not unreasonable prices.[1]

(00:02:14)

The underlying businesses that Crescent holds are, on average, better than at any previous point in time that we can recall, which gives us some comfort to run more invested than has historically been the case. Current positioning notwithstanding, Crescent operates with a seasoned team conditioned to take advantage of diverse asset classes across various regions.

[Please reference slide 4] Crescent maintains the ability to invest broadly across asset classes in different parts of the capital structure and around the world. Opportunity though comes in a lumpy fashion. There will inevitably be the extended periods when the prospects come less frequently as well as more narrowly. Such asset classes as high yield might once again offer high yields and good governance versus the low yields and weak governance of today.

We look forward to and are prepared for future breadth but we don't know when that might be. Regardless, we will continue to seek to find these great opportunities that offer an equity [-like] rate of return, yet afford a margin of safety so that we might avoid permanent impairments of capital.[2]

[1] Past performance is no guarantee, nor is it indicative, of future results. Portfolio composition will change due to ongoing management of the Fund.
[2] Margin of safety is when a security is purchased at a discount to the portfolio manager's estimate of its intrinsic value. Buying a security with a margin of safety is designed to seek to protect against permanent capital loss in the case of an unexpected event or analytical mistake. Determining a company's "true" worth or intrinsic value is highly subjective. There is no guarantee that the methods used to evaluate intrinsic

[Please reference slide 5] Crescent declined 25 basis points in Q3 but gained about 33.5% for the trailing 12 months, generating [approximately] 117% of the average of the S&P 500 and MSCI ACWI's return in the last year, significantly outperforming the Fund's [approximately] 77% average net risk exposure.

[Please reference slide 6] A rotation to value has led the way for the trailing 12 months, something we haven't seen in quite some time. Growth in international lagged, particularly international growth, but still delivered what most people would generally consider respectable performance. Crescent delivered better than market rates of return with, as I mentioned, just a bit more than three-quarters of the risk exposure of the market in the portfolio. This is a function of the Fund's long equity book strong performance, returning [approximately] 47% in the trailing 12 months.[3]

(00:04:12)

[Please reference slide 7] The previous slide reflected Crescent's long equity performance in the last year, while this slide shows the Fund's long equity performance over a longer timeframe.

Since we first started isolating and tracking the Fund's performance—the performance of the Fund's long equity book—in 2007, it has bested the S&P by 1.25 points per year despite sector headwinds over the last decade to our more value-centric and foreign-domiciled companies. As the portfolio became more global, tracking performance versus the MSCI ACWI became more relevant, beginning in 2011. Since then, Crescent's long equity book has bested the ACWI by 4.6 percentage points per annum.[4]

[Please reference slide 8] Despite the S&P 500 eking out a gain this part quarter, most equity markets worldwide finished in the red, with China being a notable pocket of weakness. As noted in the table of the trailing 12-month detractors, the Fund did not emerge unscathed, with the performance of its Chinese holdings of late mirroring the recent negativity in the press regarding China at large. The top five contributors

value will be accurate or precise or that an investment made with a margin of safety will not decline in price.

[3] The long equity segment of the Fund is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. 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 net asset value.

[4] Comparison to the S&P 500 and the MSCI ACWI NR 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.

added 12.19% to the trailing 12-month return, around six times the negative 1.89% of the bottom five detractors.

I'm going to turn it over to Mark for a little more color. Mark, did we lose you?

Mark: Can you hear me now?

Steven: Yes, we hear you now. There we go.

Mark: [Please reference slide 8] Thanks, Steven. So starting with the top contributors, Elliott, if you want to go back one slide, if you were to cast your eyes back at our commentaries from 2020, you would have found that four of the five featured as largest detractors at various points in time, meaning that while they've delivered fantastic performance this year, it was a different case over the last 12 months during 2020.[5]

(00:06:17)

As suggested by the performance contribution from the group in comparison to the average position size, our patience and willingness to stay the course and suffer through short-term volatility was rewarded.

As for those names in the detractors this time around, as Steven mentioned, China features prominently, as you can see by Alibaba as well as Nexon, a Korean-based Japanese-listed video game company with China exposure. That said, if you put a gun to our head, we'd bet that given compressed valuations and recent headwinds related to our current detractors, each of our single-named securities on the list is unlikely to end up as a repeat offender when we speak to you one year from now.[6] Elliott.

[Please reference slide 9] Moving to our equity exposure, if you exclude the roughly 300 basis points that we hold in SPACs, we remain having exposure well above recent lows, but we have clearly taken some chips off the table as of late. This reflects the complete exit of several positions, as well as the combination of trims that were only partially offset by new purchases or additions to existing names. We're not making a market call here but simply responding to the opportunities available to us on a security-by-security basis. Elliott.

[5] Historical Crescent Fund commentaries can be found at: https://fpa.com/funds/fpa-crescent-fund-quarterly-commentary-archive
[6] The list of top and bottom 5 holdings should not be considered a recommendation to purchase or sell a particular security, represents only a small percentage of the entire portfolio and the securities noted may not remain in the portfolio at the time of this presentation.

[Please reference slide 10] What I think is important to mention is that our compass remains focused on pointing us towards investments that we believe can deliver equity-type rates of return over a multi-year holding period. As Steven highlighted earlier on the call, the performance of our equities and the Fund overall has been reasonable over the past 12 months on both an absolute and relative basis.

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This performance was accomplished largely from seeds we planted several years back. And if you recall the slide on performance contribution I discussed just two slides ago, the names at the top of the list for contributors were Alphabet and AIG, coincidentally both names that were originally purchased roughly a decade ago back in 2011.[7]

Now, we haven't tried to predict what challenges the next decade is going to throw at us, but each day we look at the portfolio and try and ensure we're giving ourselves the fighting chance to deliver equity type rates of return over the coming three to five years while also avoiding permanent losses of capital.

As it relates to future-proofing the portfolio, many of the recent additions to the Fund that lie outside the top 20 are exposed to markets we believe have favorable growth prospects. And it would not surprise us over time if some of these names make it into the top 20 through appreciation or incremental purchases. That said, we're certainly not looking to churn the core of the portfolio simply so we can have shiny new names to talk to you about. Steven?

Steven: [Please reference slide 11] Thanks, Mark. Crescent's net risk exposure declined about 5 points from a year ago, to 73.1%. But if you would exclude the 3.2% allocation to at or near below trust value SPAC baskets, net risk exposure is down by about 8 points to around 70%. A few points movement in exposure up or down is just noise. But with the continued market strength, it shouldn't be a surprise for long-time shareholders that [the Fund's] exposure has declined somewhat.

[Please reference slide 12] Crescent's exposure to international stocks remains near its historical high as a percent of the Fund's equity exposure. About 39% of the Fund's equities are based outside the

[7] Portfolio composition will change due to ongoing management of the Fund. References to individual securities should not be construed as a recommendation to purchase or sell such securities, and any information provided is not a sufficient basis to make an investment decision. It should not be assumed that an investment in the securities mentioned was or will be profitable.

United States, which is really close to the 41% if one were to exclude the more bond-like SPAC exposure that's in the portfolio.

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Judging a company based on its country of domicile alone is a bit of a red herring. In our view, the Fund's global exposure should be considered not only as a function of what country in which a corporate headquarters might be located, but also from which countries their revenues are sourced. Some revenues—sorry, some companies have far more revenues and profits coming from outside their own borders. On a look-through basis, almost 64% of Crescent's portfolio companies' revenues are derived from outside of the United States.

[Please reference slide 13] This chart shows that international stocks trade on average at a lower price-to-earnings ratio or P/E than its US peers, using the MSCI ACWI ex-US and the S&P 500 for the respective international and domestic proxies. Since 2001, foreign stocks have traded at an average discount of 14% when compared to US stocks. Today, foreign stocks traded at [approximately] a 29% discount—a 20-year low.

We do not believe that the businesses we own outside the United States are so substantively different in quality and growth prospects to justify such a wide discount, and that's our significant exposure to foreign-domiciled companies.

[Please reference slide 14] Versus the MSCI ACWI and the S&P 500, the companies held in the Fund continue to exhibit better trailing 3-year earnings growth rates and have security analysts suggesting that these companies will have more growth prospectively, and yet they still trade cheaper than these benchmarks. The average PE valuation of Crescent's portfolio companies based on consensus estimates, looking forward one year, is 16.7 times—lower than both the MSCI ACWI and the S&P 500.

The portfolio companies traded at an average 1.8 times book value, 40% and 60% cheaper than the ACWI and S&P. Less expensive international companies, as pointed out in the prior slide, contribute to the Fund's lower valuations when compared to the S&P 500.

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Crescent's portfolio companies have delivered 3-year trailing earnings growth per share of 20% better than either the ACWI's 4% or the S&P's 7%. Now, 3-year forward earnings are projected to be higher as well but, as we know, actual results can vary widely from expectations. Nevertheless, we hope that this is directionally true.[8]

Brian and Mark and I are going to now address questions that have been submitted. Some questions have been answered in our prepared remarks. We won't answer questions if they involve a security in which we are currently transacting, or if it's on a topic for which we cannot offer an educated or useful view. So I'm going to turn to the first two questions that had been pre-submitted.

And the first question was: What is the biggest macro risk that you see? Has the country financially crossed the Rubicon?

We are currently in uncharted territory, but we would put to you, when is that not the case? This extended period of low rates, easy money and large fiscal deficits has helped contribute to the inflation we're seeing today. There are other factors as well, like a tight labor market, fractured supply chain, etc. Knowing where inflation settles out is really beyond our capabilities. When one takes a longer view, we continue to feel that there is a large risk to not being invested, particularly if one owns—as we think we do—good-quality, growing businesses that are not unreasonably priced. That is not to say that the market won't once again have a correction and test investors' convictions. We continue to hold a fair amount of cash that can be put to work at such a time.

There are a few questions following a similar line of thinking, so I'm going to address them collectively. The questions are: Historically, how do you see the present market? Are there any historical parallels to today's investment environment that you might find particularly useful to consider? Do you see parallels (to contrarian's stance? @ 00:14:02) during the dotcom bubble? And: Comments on market valuations based on various indicators?

(00:14:09)

[8] 3-Year Forward Estimated EPS Growth is based on FPA calculations using consensus data from CapIQ, Factset and Bloomberg. Forward Price/Earnings and 3-Year Forward Estimated EPS Growth are estimates and subject to change. Comparison to the S&P 500 and MSCI ACWI Indices is being used as a representation of the "market" and is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

US stocks, on average, aren't cheap by most historic metrics. But those metrics don't generally factor in the unusually low interest rates that influence valuations today. We have read some who equate today's environment to the dotcom bubble. We don't see it that way. There are more better companies today, with many winner-take-all or winner-take-most businesses, as compared to the plethora of businesses with poor business models that existed back then. However, we believe that some valuations today are on the high side and might prove difficult to justify over time. For more on that topic, please refer to the last quarter's webcast, where Mark discusses the most expensive 10% of the market.[9]

For our objective, we seek to avoid permanent impairments of capital, which leaves it incumbent on us to determine the appropriate price to pay. One can always pay too much even for the best of businesses. The Nifty Fifty of the early Seventies serves as a good example. Some of the constituents no longer exist or are shadows of their former selves. To name a few: Avon Products, J.C. Penney, S.S. Kresge which became Kmart which then became Sears, Sears, Simplicity Patterns, Polaroid, and Digital Equipment, to name a few.[10] Nothing is forever.

There was a question about: Are we hedging positions?

We do have some very small, company-specific hedges like VMware versus Dell, SoftBank Corp. versus SoftBank Group. We also have an S&P Index short. In the aggregate, the three represent just around 3% of NAV.

There's a question regarding Bank of America and a rationale for having sold it, and what seems to be a general lightening of the US bank exposure in the portfolio. I'll turn that over to Brian.

Brian: Sure. So I think that, one, you're right to observe that we've reduced the banking/financial exposure in the portfolio; specifically exited bank—if you're comparing from last year this time, we've exited Bank of America, we've exited CIT, and we've significantly reduced our position in Signature Bank.

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I think each investment and company has a specific story, but the easy way to think about it is that the valuations are very different today than they were when we bought those positions or, you know, largely

[9] The Fund's historical webcast slides and transcripts can be found here: https://fpa.com/funds/fpa-crescent-fund-webcast-archive
[10] The Nifty 50 refers to the fifty most popular large-cap stocks that traded at high valuations in the 1960s and 1970s.

as we held them off and on in various sizes over the last number of years. And so, depending on which of those companies we're talking about, they would have traded at anywhere around tangible book to 50 or more percent discount to tangible book at the time we bought them. And at the time we've sold them, they will have traded anywhere from a small premium to over 2.5 times tangible book. And so given that we think tangible book acts as a sort of anchor to windward or anchor to success—depending on where you are in a cycle—for a balance sheet-intensive financial business, we think it's a pretty relevant metric around which to focus our attention. And when the price is less discounted, we're apt to have a smaller position in any given situation.[11]

Steven: Thanks, Brian. Mark, there's a—Mark's not in the room with Brian and myself and so it's a little bit awkward in the interactions, so apologies for that. But there are a couple of questions I think you have in front of you that are there for you to address. Assuming that you have those written from the pre-submitteds on your side, do you want to address this?

Mark: Sure, Steven. Why don't you go ahead and read them if you've got them handy? I just don't have them in front of me.

Steven: Sure. How would the managers quantify the opportunity available in the stocks they own? Is there a large potential number of purchase candidates? Are more of the opportunities abroad versus domestically?

And I'm going to add the next question in too, because there is some overlap. I know the team is not macro-driven and that you are buying stocks and not markets. But what will it take for the rest of the world to outperform the US? The mantra was rotation to value, much less tech outside the US, and with growth/tech lagging, that hasn't done the trick.

(00:18:15)

Mark: Sure. I'll try and answer both those, and excuse the rambling in advance. But with respect to quantifying the opportunity available in the stocks we own, I'll draw your attention to the Q2 commentary, which I think Steven also mentioned earlier, where we did note it's a rather unique time where we're more

[11] Portfolio composition will change due to ongoing management of the Fund. References to individual securities should not be construed as a recommendation to purchase or sell such securities, and any information provided is not a sufficient basis to make an investment decision. The information provided does not reflect all positions purchased, sold or recommended by FPA. It should not be assumed that an investment in the securities listed was or will be profitable. For a complete list of Fund holdings as of September 30, 2021 please refer to slide 20 of the webcast presentation, or visit www.fpa.com.

invested than we have been historically, but we're also quite comfortable with what we owned and our net exposure.

Now, if you think about the world, what we're really trying to do is just be directionally right rather than calculate a specific price-to-value like some of our peers might. That said, we continue to have a favorable view of securities within the portfolio, as I noted earlier, and that covers both a qualitative perspective, meaning we think we own attractive businesses with strong competitive positions, as well as with respect to valuation.

Now, I won't go so far as to say there are a lot of potential purchase candidates. But, as noted in the letter, we have continued to be active on the buy side, with approximately 7% of NAV coming from securities we purchased in the past 12 months.[12] And this excludes several names which we, uncharacteristically, both purchased and sold within that same period.

As for names in the hopper, the team's currently hanging around the hoop on quite a few companies that have the looks of being actionable additions. But we need some time yet to determine if we'll be able to rack up a few rebounds. Names we are currently researching include a cross-section of ideas, both domestically and abroad. But if anything, it's probably tilted a little bit more domestically at this particular moment.

As for what it will take for the rest of the world to outperform the US, it's probably not something we really feel we're in a position to opine on. But I will personally note that the FAANGM—meaning Facebook, Amazon, Apple, Netflix, Google, Microsoft—account for about 25% of the S&P 500 [as of September 30, 2021] and, as such, play a large role in driving S&P performance. But as we've seen this quarter from the constituents that have already reported in Q3, several of which we own, the underlying businesses continue to go from strength to strength.

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Stepping back, as it relates to our particular portfolio, our aspiration is that over the next three to five years, we can search the globe and assemble a portfolio of securities that gives us a fighting chance of

[12] Please refer to the FPA Crescent Fund 3rd Quarter 2021 commentary (https://fpa.com/docs/default-source/funds/fpa-crescent-fund/literature/quarterly-commentaries/fpa-crescent-fund-commentary-2021-q3.pdf?sfvrsn=f7db919d_6)

delivering equity type rates of return regardless of whether it is growth, value, domestic or international that's leading the pack. Steven or Brian?

Brian: Thanks, Mark, and happy birthday. And so as a present for your birthday, I'll take the first question on the board which is: What are your thoughts on broadband saturation at Comcast and Charter? I see you smiling, okay.

I think a couple of things. One, we don't have the definitive view of what will happen with broadband penetration. It's clearly nearing the end of sort of the easy gains from either taking from DSL, or people signing up for the service. So new subscribers, I think, will certainly be less over the next five years than they were over the last five years. That's just probably mathematical certainty.

The companies in question have a, I think in our view, a reasonable prospect of continuing to grow at a rate that would make them attractive investments at their current valuations and I think those sources of growth, in varying degrees, will come from some level of population growth so then they'll expand their physical plant on the back of that. There will be some growth, I would think, on their commercial or small business end, and certainly wireless is an area where they've seen pretty successful efforts to date.

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I think on top of that, there would be a hope or expectation that that slowing footprint or new customer base would allow the businesses to improve margins over time, as it's somewhat less expensive to serve an existing customer base that appears to be exhibiting lower churn than it is to sign up and service new customers.

And so with the combination of those things, we think that they have a reasonable chance of successful business operations and results in a period when certainly new subscribers will be slower.

And the other thing I would add, which is always important to us, is that the price you pay and where they're valued, I think doesn't demand that they can grow top line at, say, 10% a year or anything like that, prospectively. So that would be my take on that question.

The second question I think I will also take.

Steven: Is this Mark's second birthday present that he gets then?

Brian: No, I think this one I was taking no matter what.

Mark: Steven is going to take the China questions as my birthday present this year.

Steven: Yes, yes.

Brian: Yes, you doing number three is the real present. So this number two is: Could you please explain your SPAC holdings and how they figure into your total returns?

So, very briefly, we own a portfolio of SPACs. And for those not familiar, prior to a deal announcement, a SPAC will often trade as a unit, which is a combination of a share and a warrant. When you can purchase those units at less than the trust value of the shares, you're set up with what we think is a very low downside, really no downside if you don't sell the position, and some optionality on the upside. And so the downside protection comes from your ability to put the shares back at trust value, which you've paid less than. And the option on the upside comes from the potential for the shares to trade above trust value in the event the deal is consummated or announced, and also for the warrants to become active and pick up by 5-year life typically at a 15% premium to the trust value.[13]

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And so that means that if you do a basket of these, we would suspect that a diversified group would have a fair number—probably the vast majority, in our estimation—successfully complete a deal. And so we kind of think of that, then we would at least get the warrants and that probably leads to a positive return

[13] No representation is being made that any strategy will or is likely to achieve results similar to those discussed herein. Investing in Special Purpose Acquisition Companies ("SPACS") involves risks. Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. 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. Other risks of investing in SPACS include, but is not limited to: (i) a significant portion of the monies raised by the SPAC for the purpose of identifying and effecting an acquisition or merger may be expended during the search for a target transaction; (ii) an attractive acquisition or merger target may not be identified at all and the SPAC will be required to return any remaining monies to shareholders; (iii) any proposed merger or acquisition may be unable to obtain the requisite approval, if any of SPAC shareholders; (iv) an acquisition or merger once effected may prove unsuccessful and an investment in the SPAC may lose value; (v) the warrants or other rights with respect to the SPAC held by the Fund may expire worthless or may be repurchased or retired by the SPAC at an unfavorable price; (vi) the Fund will be delayed in receiving any redemption or liquidation proceeds from a SPAC to which it is entitled; (vii) an investment in a SPAC may be diluted by additional later offerings of interests in the SPAC or by other investors exercising existing rights to purchase shares of the SPAC; (viii) no or only a thinly traded market for shares of or interests in a SPAC may develop, leaving the Fund unable to sell its interest in a SPAC or to sell its interest only at a price below what the Fund believes is the SPAC interest's intrinsic value; and (ix) the values of investments in SPACs may be highly volatile and may depreciate significantly over time.

that's healthily above cash and probably has a reasonable chance of outperforming high yield. So we think of these as a better than high yield risk/reward.

They do show up in the portfolio as equities, and so the question on how does it figure in your total returns, our total returns will be benefited to the extent there are deems when the companies undergo a de-SPACing.

There is actually, I think, an article or a mention of this in the *Wall Street Journal* two or three weeks ago of, I think, a bond manager who mentioned this as a similar thesis, saying that they think that this is a more attractive credit risk than, say, the credit market.[14] That's certainly our view also.

Steven: And it's important just to think of it and frame it, just to put it in one sentence, that there's, in our view, not a lot of downside and there's some optionality in the upside.

Brian: In the extreme example, this would be—unfortunately we don't own it—but the Trump SPAC, had we had that in the basket, it would have resulted in a very big return across the entire basket. So you don't need a ton of winners if you have one or two that are successful out of the SPACs.

(00:26:07)

Steven: Mark, the question for you—the birthday question for you out of China? It just went off the screen.

Mark: Sure. Sorry The question is: how do you quantify the risk of owning Chinese stocks in an unstable regulatory environment, with certain industries like education being entirely wiped out?

So we don't own any companies in the education sector. If you think about the names that we [the Fund] do own with direct exposure, it would be Baidu, it would be Naspers and Prosus that have underlying exposure to Tencent, and lastly Alibaba. And then of course we have other names that have tangential exposure to China but aren't quote/unquote "Chinese companies". We think it's a pretty low borderline, remote risk that other industries get wiped out.

[14] Source: Wall Street Journal, "Some Investors Find Stability in SPACs", October 12, 2021. https://www.wsj.com/articles/some-investors-find-stability-in-spacs-11634007742?mod=Searchresults_pos6&page=3

You know, you could choose not to invest in Russia because Yukos was once appropriated, if you use that logic.[15] I think Russia's the best-performing market over the past year. We don't have any exposure but I just think because something happened once it's not a great parallel to draw.

The government hasn't shown any signs to date, and I think it's unlikely going forward because if you want to inspire a company—excuse me, a country—to have citizens that raise their cost of living—or standard of living, excuse me—are hardworking, build a semiconductor industry for example, I don't think you get there by showing all the semiconductor engineers that if you pour your life's work into something in an effort to develop interesting technologies for example, and enrich yourself in the process, they could wake up and seize it on a moment's notice, will inspire greatness.

I think this requires a longer answer, but the short answer is that we think it's pretty unlikely and that doesn't seem to be the path that the country is going down.

The dissatisfaction with the education sector had been well-flagged, it was completely against the common prosperity that the Politburo had spoken about for some time and it was, I think, also a pretty popular move with the public at large.

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I think you might hear people—I mean, I once saw a survey about whether people would switch phones from Apple to keep WeChat if it wasn't available on your Apple Phone any more and something like 90% plus said they would ditch their Apple Phone to be able to keep WeChat.[16] I think the government would be unlikely to completely wipe out various platforms. But it's hard to have a real cogent answer on this one with specificity.

Brian: The only thing I would add is from a portfolio or risk management perspective. We've talked about, whether it's China or Russia or leveraged financials or other sort of categories of investments that we've made over the years that certainly have discrete, out-of-leftfield risks that might result in material impairments to individual positions or groups of positions. And we've always sought to manage that exposure on a

[15] https://www.international-arbitration-attorney.com/overview-of-the-yukos-arbitration/
[16] Source: *China Internet Watch*, "Poll: 95% users will abandon iPhones if WeChat no longer supported", August 14, 2020. https://www.chinainternetwatch.com/31068/iphone-wechat-poll/?utm_source=feedburner&utm_medium=feed&utm_campaign=ciw_blog_posts

thoughtful basis from a portfolio perspective, such that if the unlikely were to happen, it wouldn't be devastating to the portfolio. Now we'd suffer losses certainly, but you kind of can't have any returns unless you have some level of risk that you run.

And so specifically with regard to China, it's a conversation we would have had as a group. We would have settled on an aggregate exposure we were willing to have and we can live with it, and we think that it would be unfortunate if the unlikely were to happen, but it's also something that we live to fight another day.

(00:30:04)

So we sometimes get a question from people, the price of company X is down therefore you must love it that much more and so why don't you just buy it blindly? And I think the idea we have is that there are some things that have idiosyncratic risks that could be catastrophic that sometimes a change in price just reflects an increase in the probability of that risk occurring and that it, all things equal, maybe isn't just automatically better at a lower price. There are other companies with different balance sheets or with different legal ramifications or structures where you would just be more comfortable averaging down and averaging down. And so I think those are attributes that we try to keep in the front of our mind when we're managing the portfolio—separate from China specifically.

Mark: I think if you also go back to the transcript from the last conference call, you'll see we talked about China for about 45 minutes or so, so that might give you a more detailed look into our thinking.

Steven: There's one last question that is not portfolio-specific; it's broader. And since Ryan Leggio's here, I thought I'd turn it over to him just to add a quick thought and then maybe have him make himself available if there are additional thoughts as well. Ryan?

Ryan: Sure, thanks, Steven. The question is: What's your view on some mutual funds turning into ETFs. We've noticed that as well. I think on a weekly basis we see news. I think you'll notice that most of the funds that are doing that are primarily equity funds. And all I can say is we've evaluated that option for Crescent but, in short, given the capabilities of the portfolio in terms of asset classes and what the Fund owns now, we don't believe it's currently a viable option. Any shareholder who would like to learn more about our thoughts and research into the ETF space is welcome to reach out to our relationship management team or me, personally.

(00:32:11)

Steve: Do you not want to give your email for that?

Ryan: Sure. You can just reach out to crm@fpa.com, our general mailbox, and we'll make sure it gets to the appropriate person.

I believe that's the last question, correct, Elliott? Great. And with that, thank you everyone for listening to FPA Crescent's third quarter 2021 webcast. Of course, if we missed your question or if you have any additional questions, as I mentioned, please do not hesitate to call your relationship representative, or email us at crm@fpa.com. We now turn it back over to the system moderator for closing comments and disclosures.

Moderator: [Please reference Important Disclosure Section, slides 18-22]] Thank you for your participation in today's webcast. We invite you, your colleagues and shareholders to listen to the playback for 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 Fund, such as complete portfolio holdings, historical returns, and after-tax returns.

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

Please visit FPA.com for future webcast information, including replays. We 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.

(00:34:03)

We do want to make sure you understand that the views expressed on this call are as of today, and are subject to change without notice based on market and other conditions. These views may differ from 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.

(00:36:13)

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