Q1 2023 FPA Crescent Fund (FPACX) Webcast
May 2, 2023

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(00:00:00)

Moderator: Hello, and welcome to today's webcast. My name is Sarah and I will be your event specialist. 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 box on the left side of your screen, type your question, and click New Question to submit. If you are experiencing technical issues, 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 and thank you, everyone, for joining us today. We would like to welcome you to FPA Crescent's First Quarter Webcast. My name is Ryan Leggio and I'm a partner here at FPA and lead Client Relations.

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

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.

Before I turn it over to the portfolio managers, I wanted to note two things. First, Steven was in Chicago last week to give a keynote address at the Morningstar Investment Conference, and that transcript of his speech is now available in the [Featured section on the] homepage of our website and on the FPA Crescent portion of our website. In his speech, Steven reflects on how his evolution as a [value] investor has enabled the Fund to meet its objective since its inception.

And speaking of inception, later this quarter, Crescent will celebrate its 30th anniversary. Please stay tuned for us in the coming weeks. We are planning to have an event in the late summer or early fall to celebrate Crescent's anniversary.

(00:02:00)

[Please refer to slide 2] We include longer-term performance here for disclosure purposes.

Before I turn it over to Steven, I want to remind everyone that this is a Q&A webcast. We will first go through the pre-submitted questions and then go through the live questions as time permits. Steven, over to you.

Steven: Thank you, Ryan. Thanks for taking the time today to join our Q&A session. Brian, Mark, and I will address your previously submitted questions and the additional questions that are currently flowing in. Per usual, we won't discuss any names in which we are presently transacting or if a transaction is imminent. We hope to use your time wisely, discussing what we understand and not what we do not understand. Therefore, we will not be proffering opinions in areas where we have little skill, including calling the direction or magnitude of an interest rate move, or the timing and depth of a recession, to name a couple.

The first question that has been submitted was, **"IVA Funds, before the tragic death of fund manager Charles de Vaulx, in the past owned 5-10% in gold. Would you consider an allocation to gold in the future?" And a second part of that question was, "Are there any other managers that you pay attention to now? You've mentioned IVA managers in the past."**

One should never say never, but we have not owned gold in the past and it's unlikely that we would. Our preference leans towards owning businesses that can grow cash flow over time and either reinvest or distribute it appropriately. If we are successful in that, then we'd be as good as gold.[1]

We have respect for a lot of managers, and some manage mutual funds while others operate partnerships. Dave Samra, portfolio manager at the Artisan International Value Fund, exemplifies the former; and Seth Klarman of Baupost represents the latter.

Question: "Is geopolitical risk, like macro risk, too difficult to account for?"

(00:03:56)

Since we can't handicap macro risk, which includes geopolitical, we focus our efforts on understanding the micro. We don't ignore the macro but we try to build into our models what might happen in a downside scenario, and recognizing that more things could happen than will happen. It's a backdrop only though, and not a guiding factor. Since macro issues often impact businesses only temporarily, we prefer to look out 5+ years as we consider how a company might perform.

Another question: "Details for any current or anticipated debt positions?"

We prefer higher yielding credit, high yield bonds, distressed debt, busted converts, and the occasional private loan. We don't have much by way of any of them today. In the aggregate, total higher yielding credit was a bit over 5% at quarter end. The biggest challenge in buying public credit has been yields that have been way too low and covenants that have been way too light. In other words, we haven't been offered an adequate return to justify the exposure. Yields are somewhat higher today, but still low, with high yield spreads just about 5% over the risk-free rate, and covenants continue to give too much leeway to the borrower, which explains our low exposure today.[2] But we're ever hopeful and there could be a point in time, and we expect there'll be a point in time, where these positions will be larger, as they've been in the past.

Another question: "Shiller PE and Buffett Indicators show broad stock value as not being cheap. Any comments on valuations?"

Stocks are not particularly expensive or inexpensive. U.S. stocks trade, on average, slightly

[1] 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.

higher than their 25-year average; and international stocks have been slightly less expensive than their own average over the last quarter century.[3] However, this does need to take into account the difference in business quality and growth rates region-to-region, and also reflects the benefit of unusually low interest rates.

(00:05:55)

So, just to repeat that first line, the stocks are kind of just in about typical valuations, gives us some places to find opportunity but not—things are not on sale.

I'm going to turn it over to Brian to handle some questions now.

Brian: **So there is a question: "Are you still underweight the energy sector?"**

I'll start by saying that there are a number of different indexes that one might be referring to, so I'm not actually sure what under- or overweight would be or mean, and I think it's useful for everyone to know that we don't manage to any benchmark, and we don't start from a position of looking at weights in a benchmark or index. I actually, blissfully, have no idea what the weights are in any index.

[Please reference slide 5] But with that said, our exposure to energy-related businesses—and this is primarily energy services—is about 5% of the portfolio [as of March 31, 2023]. The [Fund's] largest [energy] holding is something called FPS [private shipping investment], which is a wholly owned by the Fund, [and is a] group of essentially offshore oil vessels, a couple of other oil service vessels. And then [the Fund] own's primarily credit instruments in a restructured company named McDermott which, again, primarily services offshore oil industry. And then we have an equity position in a U.S. gas producer, Gulfport.

Next question: "The annual report, for the first time that I remember, talked about the best performer of 2022 being something called 'interest rate caps' but you never defined what this esoteric investment is. How can you invest in a cap? Please explain."

(00:08:00)

The interest rate caps that we bought are options on the 30-year Treasury rate in the U.S. and

[2] Source: J.P. Morgan Asset Management Guide to the Markets.

[3] Source: Factset, MSCI, Standard & Poor's, J.P. Morgan Asset Management Guide to the Markets.

they work like other options, but these would be traded bespoke with dealers. They work with other options in the sense that there is a known and limited quantum of loss or spend, and there is a large and potentially, depending on where interest rates go, possibly somewhat uncapped gain.[4] And so we've done a couple of things in the past that look like this, you know, kind of deep out-of-the-money puts or some, also, options on yen in the past. And so I think this is something that we look for from time to time, when—whether it's a macro type instrument like rates, or maybe something micro— [when] it just seems kind of very skewed, from our perspective, from a risk/reward point of view.

And so if you go back when the 10-year was probably 50-70 basis points or something like that, in COVID—I think we wrote about this fairly extensively in the middle of 2020—that we thought that was, that taking duration and interest rate exposure at that point was a pretty bad idea compared to a more equity-weighted portfolio. That would have also been around the time when we would have bought those caps. We subsequently exited that position,[and] so it is no longer in the portfolio.[5]

And maybe staying related to that, there is a number of questions around financials. I'm not sure. I think this is kind of an invitation to comment on regional banking issues/crisis, and so I'll take this somewhat broadly because we got questions ranging from "Is there an opportunity? Is it in large or small cap banks?", **"You had a small position in…" I think the question asks, says Silvergate but the company is Signature, which is one of the banks that was seized. And "To what extent are other banks vulnerable to deposit runs?"**

(00:10:13)

So I think I'll sum this up and say that the banks that have failed now, I think if we were to rewind a year ago—and certainly a year and a half ago—and if you were to ask ten regional bank analysts on Wall Street, if you had asked them for their list of the five best regional banks in the country, I would bet you that every one of the analysts would have had at least one, if not two or three, of the

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[4] Available on the 2-year, 5-year, 10-year, and 30-year tenors, futures and option on U.S. Treasuries are standardized contracts on U.S. government notes or bonds that offer a wide variety of strategies for those looking to hedge or assume risk based on interest rate market exposure.

[5] Interest rate caps were purchased in Q1 2020 and rolled off in Q1 2023. Past performance is no guarantee, nor is it indicative, of future results.

banks that failed on their list of the best franchises in banking say sub the globally systemically important companies.

And so, to see them fail so quickly is somewhat disconcerting, and I think it brings to bear **the last question, which is, "How vulnerable are banks to runs or increases in costs, in interest rates?"**

And I think the answer is that [we believe] they are incredibly vulnerable because, to the extent they have a duration mismatch—which, to some degree, every bank does—and short-term rates are significantly higher than deposits, [in our opinion] it's really irrational for people to keep any type of deposits at a bank. You ought to swap it and do a Treasury money market—I shouldn't give any advice. There's a lot of options that one could do to improve their yield and improve the security of their cash holdings that are not deposits at banks.[6]

And so, given that I think one of the big facilitators of the bank crisis was the ubiquitous digital services that allow bank runs to happen in, you know, a day instead of in weeks or months, I think that observation would cause me to have some level of concern on any bank's deposit franchise, given the current regulatory environment. The regulatory environment might change, and there are certainly banks that are much, much better positioned than the average, or from your generic regional bank, in terms of the nature of their deposit franchise and how much of it is sort of operating fractional cash versus something like a savings account.

(00:12:32)

But all of that sort of sums up to we've not done anything with regional banks, and I'll just put one pin in the question about Signature, which clearly we didn't expect that it would be seized.

Okay, I am now going to switch and throw on to Mark because you must be sick of hearing me. Mark, **"How does or will AI impact your investment decision-making process?"**

Mark: For the record, Brian, I would never get sick of hearing you talk. I'm happy if you always want to take all the questions.

As for the AI impacting the decision-making process, at the moment we would say that it's more in terms of potentially making us more productive as we look to extract source material from various places such as 10-Ks, quarterly reports, conference calls, such as that. We are not quants *per se* so it's not as though we have some black box that AI is improving. But, if anything, it could make us more efficient. The downside is it will probably make all our peers more efficient as well. So, as it stands at the moment, with what we've seen and experimented with ChatGPT and the like, we don't think it necessarily gives us any advantage but it might make the investment process more efficient for both us and the investment community at large.

(00:14:09)

Brian: Mark, maybe we can both—**would you like to talk about companies passing along price increases this year versus last year, and if you've seen or heard people having more troubles with that?**

Mark: Sure. So, generally speaking, you've got two types of companies: you have price-takers and price-makers. So a price-taker will often transact in a commodity-type business and generally has very little ability to influence price, as they are essentially selling an undifferentiated product.

So, at times, Crescent does own such companies. Brian mentioned earlier, we do have some energy exposure, and we would define such businesses as price-takers. We have a greater affinity for price-makers that supply a unique product or service, which allows for a company to, quote/unquote, "take price and protect margins and profitability when required." Now, obviously not every company is in such a privileged position to do so but, all else equal, those are the evergreen type companies which account for a significant portion of [the Fund's] portfolio.

So just as an example, if you've got a significant other or perhaps even a recent graduate whom you are thinking of buying some Cartier jewelry to celebrate a special occasion, the time to do it was three weeks ago just before the jeweler implemented a global price hike of 5-15%.[7]

Now, in a similar vein, many of our semiconductor companies actually used their quarterly conference calls over the past year to point out that, while they were putting through significant price increases in response to rising inputs, they were actually exercising restraint so as to not have customers

[7] As of March 31, 2023 Crescent Fund has a position in CIE Financiere Richemont, owner of Cartier.

feel like they were being gouged, even though it was within their power to do so.

Now, as for a very general statement, what we've observed with first quarter 2023 results is that many companies have benefited from price hikes put in place over the past 12 months to offset inflation. They're now, with a lag, experiencing the benefits of such hikes as they flow through to current revenue, and they're also seeing the softening, at times, of input prices such that margins are actually coming in better than what was expected by sell-side estimates albeit, in some cases, volumes might be lighter than what was anticipated.

(00:16:26)

Brian: Great.

Mark: Brian, I'll toss it back to you if you want to take one.

Brian: Sure. There's a question: **"What conditions would it take to put your cash to work? And is all your cash in short-term instruments generating at least some yield?"**

So I'll answer the second part because it's very easy. Yes, they are in short-term instruments, and they are getting [what we consider to be] a pretty decent yield right now.

In terms of putting the cash to work buying or selling things, so everything is done opportunistically. There are sort of some broad categories of opportunity that would be helpful for us for being fully invested, and I think I'll first zoom out and talk about the mandate of the Fund, right.

The mandate of the Fund is equity-like returns [over the long-term] with less risk [than the market], and we think about risk as permanent impairments of capital. So there are some businesses that are equities that [we believe] are very, very safe and have, let's say, as much durability or sustainability or robustness as any sort of credit that one might be interested in. [We] think of these as global consumer staples that are geographically diverse, [have] strong balance sheets, and probably produce a product that are consumed very regularly that don't maybe have many substitution options, and tend to be maybe strongly supported by an industrial position. And so if you could find a lot of businesses like that, you would probably be—or we would be—very comfortable being fully invested in equities and thinking that we were meeting the mandate that I earlier described. And in fact, in the first quarter, we bought one of those, Heineken Holding. And if the world provided us with opportunities to buy more businesses like that, at what we think of as reasonable multiples that would support long-term owner returns in the double digits, then that could be a big pocket of increasing the investment posture of the Fund.

(00:18:23)

Another category would be something Steven talked about, which would be high yield and credit. So, [the Fund's] credit [position] has increased from essentially zero to what Steven mentioned, essentially zero from a year ago, and I think that we've got a very decent chance of increasing the credit exposure in the Fund over the next 12 months or so. This probably wraps back into some of the discussions around banks.

And then lastly, I would say that we have a somewhat [differentiated] and diversified portfolio—some businesses, like Mark said, strong franchises; some are more price-takers—and they have certain levels of cyclicality that we are comfortable with at the current exposures, for the prices on offer. Now, if the prices of those businesses of [the Fund's] portfolio holdings were to change materially, meaning like a broad selloff among those names, then we would also have an opportunity to increase the exposure and still maintain sort of the overall mandate of the Fund.

I will now just turn on—there's a couple of questions on some real estate or REITs that we've bought or added to in the last quarter. And I think we won't, I'm not going to—so one person wrote in a very detailed question with their own analysis, and I'm not going to kind of get into what our own sort of NAV is or thinking on a company. But to that person, I would say I don't sort of have any glaring disagreement with your email. Otherwise, we are buying these and hoping to buy more so, my comments will be general.

(00:19:59)

I would say [we believe] that a number of public REITs trade at prices that allow you to access the underlying real estate at clear discounts to replacement cost. And if one believes that real estate will remain relevant over time, or regain relevance, then you ought to do okay on that basis. And that's largely our thesis.

Next question, I will say, is—let's see.

Steven: Brian, I can take one of the pre-submitted…

Brian: Oh, sure. Okay. Yes, go ahead.

Steven: Sure. **There's a question, "Please remind us of your internal hurdle rate for companies to be added to your strategy. It looks like you've been reducing equity, trimming exposure back to level pre-COVID."**

So we've talked about this on prior calls, but the investment team doesn't have a single hurdle rate for an investment to be added to the strategy. But if we have a guiding rule, it would probably be we want to avoid doing anything that might look stupid 12-24 months from now. So that doesn't mean we don't make mistakes, but we try not to get sucked into FOMO [fear of missing out] or momentum during times of irrational exuberance.

As for how we look at investments, again, as discussed in the past, we often employ scenario-based analysis for many securities. So we will prepare low, base, high scenarios over, say, three years and we will aim to not lose money, or hopefully make single digits in our low case, equity-type rates of return in our base case, and equity-plus in our high case.

Now, of course, this is more art than science, and those that know us would [likely] suggest that the inputs in our models and the exit multiples we assume err to the side of conservatism. And in response, we would say, "Guilty as charged."

Now, for other investments it might be heads we win, tails we don't lose, and the upside is just enough juice to entice us to stop sucking our thumbs and place an order. And so it really depends on the type of securities and what we think the range of outcomes might be. Brian, I'll toss it back to you.

(00:22:10)

Brian: Great. There were a couple of questions on SPACs, and I think one mentioning that, I think, the general portfolio exposure has gone down significantly, and a question about, **"Has this largely just converted that investment into T-bills?"**

And the answer is yes. And a quick reminder of the SPACs, we bought them at a discount to the trust value. The trust[s] [were] in T-bills. If the companies weren't able to get deals done, then you would get, essentially, your interest in the trust paid out to you, and that's largely what has happened. And so we still have a small sort of tag-end of these that haven't quite reached their maturity date but, when they do, that will—[we expect] the remainder of it will convert to cash also.

Mark, would you like to take any of the ones on the board?

Mark: Sure. So I'll maybe try tie these two together. The first one is, **"In terms of the FAANGs, what makes Facebook, Google and Amazon worthy of ownership but not Apple or Microsoft presently?" And the second question is, "What are your thoughts on Meta's business today and the billions that companies are pouring into the Metaverse concept and VR?"**

So we do own Facebook, Google and Amazon at present. We do not own Apple and we don't own Microsoft, though we did own it for roughly a decade up till 2020 I believe, or so.

You know, Apple is one that we've never owned in the Fund. Obviously, error of omission because it was talked about at times, and we could add it to the other hundreds of names that are errors of omission. As for where it is at present, the valuation is such that we don't think it offers a particularly compelling risk/reward at the moment unless you're searching for names that maybe do have some technology risk and offer you a low single digit free cash flow yield [as of March 31, 2023].

(00:24:17)

In terms of Microsoft, we would be much more positive towards the long-term earnings opportunity. We keep a close eye on it. We regularly read the quarterly conference calls. We appreciate Amy Hood's jokes on them. We think about what the right price to pay for Microsoft is, and we think they're well-positioned going forward. And so if there ever was some sort of macroeconomic event where we woke up and names were generally down by more than you ever thought they could be, I think Microsoft would be at the top of the list as a potential addition.

As for Facebook and Google, we think, on their current earnings, they're attractively valued despite the fact we have owned several—both of them, sorry—for many years.

Amazon is one that we think you've got to look out a little bit longer for the multiple to come down, albeit that's because there's a significant number of investments taking place at the moment that impair profitability. But you don't need to be that much of a dreamer to see the underlying earnings in Amazon. And on the most recent conference [call], management did note that they thought that the margins for the North American retail business, which has suffered over the past two years, could get ahead of the mid-single digit margin they saw pre-COVID.[8] And so when you think about the underlying earnings power of AWS, you think about the underearning businesses in international retail that are still being built out that should hopefully have a margin potential similar to that of North America, and then you think about some of the money-losing operations that ultimately could turn profitable or be curtailed, we think actually Amazon trades at a fairly realistic multiple.

(00:26:02)

Maybe we'll go into Amazon more in detail on another call because there was the specific Meta question which we want to address as well, which I suppose will take a minute or two.

So I'll assume that everyone is familiar with Meta but just to put the perspective of the company in scale, there are 4 billion internet users outside of China, of which half are Meta DA users—daily average users—and roughly three-quarters are MAUs or monthly average users. So you can tie that incredible usage back to the fact that Meta has four of the six most widely used mobile apps in the world, that being legacy Facebook Blue, Instagram, Messenger, and WhatsApp. And then within the apps, you can find features such as Facebook Marketplace which, for example, is used by more than a billion people annually to exchange goods and services, which incidentally is more users than eBay, Amazon, Craigslist and Shopify combined.[9]

Now, as the number two digital advertising competitor worldwide behind Google, Meta has effectively taken revenue up by four times between 2016 and where we are today. I should add, during this period, the company also increased their headcount significantly, and what's really gone on at Meta over the past, call it, six months as Mark Zuckerberg has entered into the "year of efficiency," is realizing that Meta could be run with less people than it had on staff in 2022, and also with a smaller logistical footprint as that relates to real estate, configuring servers, datacenters, and the like.[10]

And so if you think about the economics of the business, the margins for the family of apps,

[8] Q1 2023 Amazon.com, Inc. Earnings Conference Call
[9] https://www.statista.com/statistics/1275844/key-figures-facebook-marketplace-shops/; https://www.businessnewsdaily.com/9481-p2p-marketplace-apps.html
[10] https://about.fb.com/news/2023/03/mark-zuckerberg-meta-year-of-efficiency/

which encompasses Facebook Blue and Instagram, were almost 50% on a GAAP EBIT basis five years ago. We don't see a reason why the margins could not get back to that level going forward as the business benefits from efficiency measures currently underway. And we think that leaves Meta trading at a very attractive multiple even if you deduct for the roughly $15 billion currently being spent on the Reality Labs or Metaverse initiative.[11]

(00:28:22)

Now, the good part of Meta is we have an owner-operator at the helm who brought us Instagram, WhatsApp, scaled the business in an impressive manner. Unfortunately, he also has an obsession with virtual reality in the form of the Reality Labs segment. Now, to cut to the chase, if we were in Zuckerberg's seat, we wouldn't be making the Reality Labs investment, but there's also a reason the three of us aren't sitting in Zuckerberg's seat because our technological capabilities are largely limited to booting up our computer each day.

But the spend on Reality Labs is so large that our working thesis is that either Zuckerberg starts to see success in a couple of years, or he gets tired of seeing failure and materially dies back the investment. The benefit is that we think Meta is currently trading at a reasonable valuation at the moment, even impairing results for Reality Lab, and the Reality Lab losses we would hope will be in a different places two to three years from now, as mentioned, either because spend has been curtailed or the investment proves to be successful despite our comments earlier.

I think that covers Meta. Brian, did you want to jump in for any? I can take—

Brian: Sure. Well, there's a question—this is not, I don't know how valuable our views are—but, **"Any thoughts on capital availability due to the banking situation?"**

You know, I think this is a pretty consensus view but it's hard to imagine that it won't tighten conditions in the U.S., particularly for real estate.

(00:29:59)

Steven: I mean, I'm not really sure. They talk about "capital availability" and in the way the question was posed, if it's relating to capital available to bail out the banks or capital in general across…

[11] Meta company filings.

Brian: Oh.

Steven: Across the countries. But, so Brian answered the question in the context of what it might mean for availability of credit or how that might be impactful to the economy. At least as it relates to the banks, I mean the BTFP programs that track to a program that gives the banks the ability to borrow with their held-to-maturity portfolio at par, which is a very attractive tool for the banks. It gives them a lot of liquidity.[12]

Brian: And then, Mark, I don't know if you want to talk about IFF.

Mark: Sure.

Brian: I can talk about IFF. I—yes? Okay. Go ahead.

Mark: So the question is, **"Can you discuss IFF? How much of the problems are self-inflicted and flexible, and how much is market change?"**

So IFF [International Flavors and Fragrances] is one of the world's leading flavor and fragrance companies. I don't think we've talked about it in depth in prior calls, but flavor and fragrance is an industry that we collectively have been following now for several decades. We think it's one of the better industries in the world because, essentially, what you are doing is providing the input for a flavor or a fragrance to, for example, a large MNC [multinational corporation] that maybe wants to make their fabric softener smell like vanilla, or they might want to have a low-sugar solution for their mint chocolate chip ice cream with nice mouthfeel, for example.

And so the cost of providing the input to these FMCG [fast-moving consumer goods]—typically FMCG—companies usually accounts for perhaps 1-2% of the overall cost of the product, but it is of paramount importance in terms of a product being successful. So if we think about things that we purchase, whether it be shampoos, body washes, the like, we often go back to those because there is a smell that triggers a response of familiarity that we are looking for when we open the product and when we use it. And then similarly, for taste, obviously we buy products that we find appealing to our palate and also, whether it be mouthfeel, that they don't taste like grit or dirt despite the fact that they might

[12] The Bank Term Funding Program (BTFP) was created to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.

have been engineered to be low-salt, low-sugar, etc. And those are the type of solutions that IFF provides to clients across the world on a global basis.

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Now, rather than getting into too much details, IFF had been an acquisitive company under prior management. New management has recently come in. We've seen the majority of senior management change over under the new CEO. And we take a positive view, based on some background research we did with the help of Scott Cendrowski, our investigative journalist, that we think Frank Clyburn, the new CEO, is the right person for the job because, as far as we can tell, his skills effectively are blocking and tackling, putting the right people in the right place, and putting the right measures in place such that you get effective outcomes by measuring what should be measured.

And so with respect to IFF, the company continues to be a market leader in a very good business. They've had some [of their] own goals [fail] due to integration follies over the past few years, as mentioned, under prior management. But going forward, we think on a multiyear basis it has the potential to be a wonderful company, earning tremendous free cash flow and we would expect that, as in the past, that free cash flow will largely be returned to shareholders in the form of dividends, buybacks once the balance sheet improves, and possibly further bolt-on M&A because there really aren't that many large targets left.

Brian, I'm not sure if you want to add anything.

(00:34:00)

Brian: No. I think we've at least heard a couple of positive things around changes in the organization's structure and compensation schemes down through to the sales staff that would, again, suggest that Frank has a decent probability of being the right guy.

Mark: Okay. **There's a question: "Thoughts on China/Baba?"**

Our overall exposure to China is significantly less than what it would have been one to two years ago. It's a conscious decision. Frankly speaking, we found it more difficult to invest in China due to regulatory changes, competitive intensity, and economic cyclicality than we appreciated at the time of our original investments. So at the moment, we do continue to still have exposure to names that we think are very attractively valued, that we think are currently acting as exemplary stewards of capital.

And so if you look at the names, we currently have Swire Pacific, Alibaba, and Naspers, all of which are undertaking very significant share repurchase programs at present, and all of which we think are very attractively valued.[13] However, we say that, due to the aforementioned factors, perhaps we think now these are more commercial type opportunities than they are necessarily long-term compounders. The businesses still have the characteristics that we'd be looking for in compounders but they're operating in an environment that perhaps is not as compounder-friendly as other jurisdictions in the world.

Brian: I think that's it.

Ryan: Great, thanks, Steve, Mark, and Brian. To any of our listeners, if we missed your question or if you have additional questions, feel free to reach out to your FPA relationship representative or email us at crm@fpa.com.

At this time, I would like to turn it back over to the system moderator. Thanks, everyone, and have a great day.

(00:36:09)

Moderator: Thank you for your participation in today's webcast. We invite you, your colleagues, and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website within a few weeks 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

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[13] https://www.bloomberg.com/news/articles/2022-11-18/alibaba-shares-surge-with-buyback-signs-of-covid-easing?in_source=embedded-checkout-banner; https://www.bloomberg.com/news/articles/2022-08-11/swire-to-buy-back-510-million-shares-sending-stock-surging?in_source=embedded-checkout-bannerhttps://senspdf.jse.co.za/documents/SENS_20220928_S466369.pdf .

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 keep you appropriately informed on the strategies discussed today.

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 any 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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(00:38:06)

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You should consider the Fund's investment objectives, risks, charges, and expenses carefully before you invest. The prospectus details the Fund's investment objective and policies, risks, charges, and other matters of interest to a prospective investor. Please read the prospectus carefully before investing. The prospectus may be obtained by visiting the website at FPA.com, by email at crm@fpa.com, tollfree by calling 1-800-982-4372, or by contacting the Fund in writing.

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