

**Q1 2021 FPA New Income, Inc. (FPNIX) and
Flexible Fixed Income Fund (FPFIX) Webcast
April 28th, 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 FPNIX and/or FPFIX (each a “Fund”, and collectively the “Funds”) investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details each Fund's objective and policies and other matters of interest to the prospective investor. Please read the Prospectus carefully before investing.

This transcript must be preceded or accompanied by a prospectus for the Funds. The prospectus for FPNIX dated January 28, 2021, and supplement dated April 19, 2021, can be accessed at: <https://fpa.com/request-funds-literature>. The prospectus for FPFIX dated April 16, 2021 can be accessed at: <https://fpa.com/request-funds-literature> The most current prospectus can always be obtained by visiting the website at www.fpa.com, by calling toll-free, 1-800-982-4372, or by contacting each Fund in writing.

(00:00:00)

Moderator: Hello, and welcome to today’s webcast. My name is Blu and I’ll be your phone operator for today’s event. 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 questions at any time. Click the green Q&A icon on

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the lower left-hand corner of the screen, type your question in the open area and click Ask to submit.

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And finally, should need technical assistance, as a best practice, we suggest you refresh your browser. If that does not resolve the issue, please just 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 Kristina Surkova. Kristina, the floor is yours.

Kristina: Thank you. Good afternoon and thank you for joining us today. We would like to welcome you to FPA New Income and FPA Flexible Fixed Income Fund First Quarter 2021 Webcast. My name is Kristina Surkova, and I am relationship manager for the Funds. The audio, transcript, and visual replay of today's webcast will be made available on our website, FPA.com.

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[Please reference slide 1] In just a moment, you will hear from portfolio managers Tom Atteberry and Abhi Patwardhan and members of the Fixed Income investment team.

Tom Atteberry is a partner at FPA and joined the firm in 1997. Tom has been a portfolio manager of FPA New Income, Inc. since 2004, and a portfolio manager for FPA Flexible Fixed Income Fund since its inception in December 2018.

Abhi Patwardhan is a partner at FPA and has been with the firm since 2010. He has been director of research for FPA New Income since April 2015, and portfolio manager for the Fund since November 2015. He has served as portfolio manager for FPA Flexible Fixed Income Fund since its inception in December 2018.

(00:02:38)

[Please reference slide 2] Now let's talk about what happened during the quarter. The economic recovery and reflation steepened the yield curve significantly. In general, spreads are lower across most fixed income asset classes. We believe the market remains expensive, and the portfolios are invested accordingly.

As part of today's agenda, Tom and Abhi will discuss the highlights for both Funds, provide commentary on the market, review performance

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and portfolio activity, and open up to question and answers. Before we move into the discussion Ryan Leggio, partner of FPA, will discuss fund highlights for both Funds. Ryan, over to you now.

Ryan: [Please reference slide 6] Thank you, Kristina, and good afternoon, everyone. This slide will be familiar to our long-term investors and so I will not go over it in detail. I do want to mention four things though.

First, FPA New Income has been closed to new investors—or soft closed—since July 21, 2020. If you were an investor prior to that date and are having any issues investing in the Fund, please reach out to your FPA relationship representative or email us at crm@fpa.com.

Second, we conduct periodic reviews with the information we receive from various platforms to ensure the New Income soft closure is working as intended. We recently reviewed all entities that we have transparency for who purchased more than \$10 million since the Fund soft closed. I am pleased to report all of those entities were shareholders of the Fund prior to the July 31 soft closure cutoff date.

(00:04:27)

Third, you will notice at the bottom right of the page, we recently launched an advisor share class for FPA Flexible Fixed Income. This share class will be available on select platforms in the coming months

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and, depending upon the aspects of those platforms, that share class may be available without a transaction fee. We have no plans to launch an advisor share class for FPA New Income given, among other factors, the fund is soft closed and has had some inflows on average the last few months.

Last but not least, please note end of the page that FPA New Income's expense ratio was recently lowered from 49 basis points to 47 basis points. That was effective March 31, 2021 for 12 months.¹ In part, we did this in recognition of the current environment that Tom and Abhi will review on the remainder of this webcast.

And with that, it is my pleasure to turn the call over to Tom. Tom, over to you.

Thomas: [Please reference slide 7] Hey, thanks, Ryan, and thank you, everyone, for joining us this afternoon while Abhi and I talk about both the FPA New Income Fund and the FPA Flexible Fixed Income Fund.

(00:06:08)

¹ Effective March 31, 2021, First Pacific Advisors, LP ("FPA" or the "Adviser") has contractually agreed to reimburse expenses in excess of 0.47% of the average net assets of the Fund (excluding interest, taxes, brokerage fees and commissions payable by the Fund in connection with the purchase or sale of portfolio securities, and extraordinary expenses, including litigation expenses not incurred in the Fund's ordinary course of business) through March 31, 2022. This agreement may only be terminated earlier by the Fund's Board of Directors (the "Board") or upon termination of the Advisory Agreement. *Note, for the period December 18, 2020 through March 31, 2021, the net expense ratio was 0.49% of the average net assets of the Fund (excluding interest, taxes, brokerage fees and commissions payable by the Fund in connection with the purchase or sale of portfolio securities, and extraordinary expenses, including litigation expenses not incurred in the Fund's ordinary course of business)*

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First, some general statistics we've always gone over to give people a sense of where we are. At the end of the quarter, the New Income Fund had a yield-to-worst of 1.18% and a duration, effective duration, of 1.44 years. And as we like to show in the past, that yield-to-duration ratio is 0.82 which is very, very similar to what we were at the end of the year.

In context, if looking at the broader market as defined by the aggregate index, while we have a lower yield-to-worst than the aggregate index, we have a significantly lower effective duration. So we are capturing about 73% of the yield of the broader index while taking about 22% of the interest rate risk to get there.

When you look at that same yield and duration equation for both the aggregate index and the 1-3 Year Agg, they are 0.25 and 0.16 respectively, up slightly from where they were at the end of the year but still extremely low. So they're very sensitive to changes in interest rates.

The Flexible Fixed Income Fund had this yield-to-worst of 1.83, a 0.9 year duration, so that yield iteration is very large, at 2 times, it's significantly larger than the [illustrative] index it's worked against or compared to, which is the Bloomberg Barclays Universal Index. We are

capturing almost all the yield by taking little of the interest rate risk to get there.

[Please reference slide 8] So, I want to spend a little on market commentary, give you a little overview. Really going to cover a couple of things really. The changes in inflation expectations we've seen over the last three months, inflation from a near-term, and potentially longer-term perspective. And really a short note on the effectiveness of Fed policy and fiscal policy and government-supported lending programs that were all undertaken over the last year. Then finally, a couple of comments on longer-term potential concerns.

(00:08:11)

[Please reference slide 9] So first, let's look at the yield curve change over the year—I shouldn't say over the year, over the beginning of the year. So, the sort of lighter green line is where we were at the end of 2020; the dark green line is where we are today [at 3/31/2021].

The first thing you notice is everything sort of three years and in, especially two years and in, very little to no change because these short maturities, they're all tied to the Fed Funds Rate. The FOMC [Federal Open Market Committee] is stating pretty equivocally they're not going to do anything for a period of time, and that period of time is fairly extended.

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We will go into some detail of that later. So those have made very little movement, but things five years and out have moved dramatically; the curve is much steeper.

As we've told people many times, what does this steeper yield curve or a steep yield curve indicate to you? And what it's trying to tell you is that investors fear inflation so they're demanding a higher return to tie up their money for a longer period of time.

It also is indicating to you the next move in [interest] rates is up. What it doesn't tell you is it doesn't tell you the magnitude and it doesn't tell you the timing of that move.

But we have seen a significant change to where the curve has gotten steeper as a reflection of, okay, vaccination rollout has gone fairly well in this country. Most of the country's started to reopen, and there's a perception that that's going to lead to some increases in inflation.

So, what's the other indication that has occurred with this steepening of the yield curve? And that's on our next slide.

[Please reference slide 10] So, what we wanted to show you here, this is the return for the first quarter for a wide variety of Bloomberg Barclays indices, major ones and sub-indices. And looking at this, you start at the bottom and work up, and there's very few that produced a positive return:

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the high yield index, the intermediate high yield index and surprisingly, even though we are talking about inflation today, the TIPS index as defined by a 1-5 year TIPS, which also had a positive return.² We'll get into detail of why that happened a little bit later, but it's an interesting fact that those are the only three.

(00:10:25)

Starting with the 1-3 Year Agg and just moving up to the top of the page. the returns were all negative. They tended to be, the more negative, the longer the duration is what's the tendencies we saw as we sort of moved up the scale of losses.

There are a couple things to think about with that, oh, of the longer the duration, the worse the return.³ And some of that is the change in the duration that's been going on these indices.

The first one is one of if you have the same maturity in a lower yield and a bond, then when you calculate duration, the lower the yield for the same maturity, the higher the duration. It's just a simple math.

And the other one is there has been a tremendous amount of borrowing, and that borrowing by corporations and government has

² Treasury inflation-protected securities (TIPS) are a type of Treasury security issues by the U.S. government. TIPS are indexed to inflation in order to protect investors from a decline in the purchasing power of their money. As inflation rises, TIPS adjust in price to maintain its real value.

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tended to be at the long end because rates have been low and they've been able to refinance their debt in a lower coupon rate, which has saved them to some interest cost. So that has made these indices move out as well.

So the result you have is the bond market in general, and specifically those with any sort of longer duration to them, have become more volatile. They've become a riskier place to be because only small changes in the general level of interest rates have fairly dramatic changes in total return.

[Please reference slide 11] To give you a little context, sort of so that—you know, okay, put this in context, the next graph looks at just the aggregate index. And this is quarterly return data from 1984, June of '84,⁴ forward. And the quarter we just went through was minus 3.37%. It's the worst quarter on record for that period of time.

(00:12:13)

There are two other period of times we're noting where you came close to this, the first one being the third quarter of 1987. Now, when you

³ *Duration* is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. For example, the higher the duration, the more a bond's price will drop as interest rates rise (and vice versa).

⁴ Data for bar graph on slide 11 begins April 1, 1984.

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notice that, you also look at the second quarter of 1987 was negative as well.

The other one is you look at the first quarter of 1994 where you have an extreme negative, and it was followed by another negative. These were both periods of rapidly rising rates.

The other one to sort of notice when you look at this chart is the positive returns have been getting—the spikes have been getting lower and lower as you move from the left to the right. So as the general level of interest rates has declined and as the yield of the aggregate index has declined, its positive returns have become less and less, but its negative returns have tended to become larger, something we've talked about before, which is you're getting this asymmetric environment that is showing up in the bond market, and we expect to see this going forward.⁵

[Please reference slide 12] So I want to spend the next bit of—sort of looking and comparing yield curves over a couple of periods of time to give you a sense of what could be some similarities and what we could expect in some changes going forward.

So the first one to look at is the yield curve from—I just picked March 31 of 2012, sort of the middle of the period of 2010-2013 where we

⁵ Past performance is no guarantee, nor its it indicative, of future results.

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were having fiscal policy and quantitative easing, and compared it to the end of this quarter, where we are now in the deeper throes of quantitative easing, fiscal policy, [and] zero interest rates. So, both of those are similarities for this period of time.

And the curves are similar. They both tend to be steep. They both be telling you that sort of similar—telling you there's a fear of inflation or an increase in inflation out there. Surprisingly, the 2012 is steeper than the 2021, and QE [Quantitative Easing] and fiscal policy is multiple times greater this time around than before, plus we have a variety of these interest rate sort of guarantee programs that were put in place as well.

(00:14:30)

But looking at this, we can kind of go back to that 2010 to 2013-'14 period, and realize it's a reasonable comparison point, gives us an indication of okay, this could go on for a while, we could expect to see a steep curve, might even get somewhat steeper.

The other two I put up here were December of '19 and March of 2020. Both of those are much flatter. In the year 2019, that's at the end of a period of time of Fed Funds rates rising on a systematic basis, and investors didn't think inflation was going to be a big problem going forward. For 2020, the March period, you were entering [a] recession,

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you'd gone into a lockdown, you had a massive amount of programs out there to keep the economy sort of alive and functioning, but no one was hearing near-term levels of inflation so both of those curves have tended to be flat.

[Please reference slide 13] So what I wanted to do at this point is look forward, so to go okay, let's look at today's environment and let's compare it to that 2010-2014 and see if we can draw any kinds of conclusions.

First, I wanted to put this in here. This is Google searches for the word "inflation". It's the highest you've seen since sort of 2008 to 2009. And it spikes up very rapidly. It looks not that dissimilar to a spike you saw that appeared sort of in 2011. But you also notice these references and these looks for "inflation" are much higher than you saw during most of the periods of 2010 through 2014. So, is this an indicator that people are more concerned now than they were in the past? Don't necessarily know whether the—obviously, more people are searching for the word "inflation".

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[Please reference slide 14] So next, wanted to spend some time just sort of talking about, well, how does the market look at this and how does the Federal Open Market Committee ["FOMC"] look at this? The market is

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much more hawkish on what's going to happen with Fed Funds rates than the Fed is, and that shows on the left-hand graph.

All those red dots represent the members of the FOMC and what their view is of Fed Funds rate, when is it going to change. And right, you know, you look at it and for 2021, they're all clustered at less than 25 basis points, so there's no movement going out along. You get to the end of 2022, and four of them think you're going to start raising rates. And then you get to the end of 2023, and you get that number up to seven. So the Fed, by and large, is saying, "You've polled us, and we've told you we're not moving the Fed Funds Rate for multiple years."

The green line, the green dotted line, is a look at the options market, overnight indexed swaps, to tell you what does the market think is the change for Fed Funds rate. And lo and behold, starting in July of 2022, that line starts to rise.

Digging into detail is what you see on the right. So, this is Fed Fund futures. These were taken at various points in time, so the end of November, the end of December, the end of January then February, a couple of times in February and a couple of times in March.

And when you look at this and you look to the far right, sort of the yellow, the green and the purple line—which represents November,

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December and January views on Fed Funds futures and how they would view the Fed Funds rate—it took until January of '23 before you reached a point where the expectation was greater than 50%.

(00:18:26)

Looking at the blue line to the left, that was a picture that was taken 17 March, and that is gone and now it says oh, you reached that 50% probability in July of 2022.

So, we have a conflict between the market that thinks that Fed Funds should be increasing sooner than the Fed, who is telling you they're going to do them later. We don't particularly know, you know, which side to lean on; we just realized that okay, there's a conflict and that will need to be resolved some point in the future.

As you've seen that expectation of Fed Funds rates rising, going from '23 to '22, also it's coinciding with a yield curve that is starting to steepen up. The two are reflecting [that] investors are fearful of increasing inflation for some period of time.

So, we're going to spend a minute and look at inflation and that market, what [we believe] the market is thinking about.

[Please reference slide 15] So the next chart we're looking at is implied inflation, is in the TIPS bonds. And all that does is it takes the yield on a

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nominal Treasury and it subtracts it from the yield on a TIPS bond, and the difference is what is implied inflation, and we've got a 2-year, a 5-year and a 10-year listed here.

So, at the end of the quarter, the 2-year implied inflation rate was 2.66[%]. The 5-year was 2.6 and the 10-year was 2.37[%].

This is in the period of time we're looking at in 2010 forward, interestingly when you look at this, the 2-year and the 5-year are greater than the 10, okay? Which if you look back in time, and you can't find that repeated. This is the first time during this time period, the sort of last expansion and this one, where we have seen that.

(00:20:20)

The other thing you notice is that the 2- and the 5-year implied inflation rate are greater than any time in the past, and the 10-year is about the peak it reached in 2012. So, in a very short period of time, inflation expectations have returned to the highs that we saw during the last economic expansion.

Now, a couple of reasons of why the shorter ones have risen so much, and look the way they do, is things you see in the news— semiconductor shortages, backlogs of goods and components, backlogs of ships in ports. You've got roughly 26 container ships sitting outside

Long Beach in Los Angeles harbor waiting to be unloaded. Normally there's one that sits out there. So, these are sort of examples of bottlenecks that cause prices to increase, whether it's for shipping or for certain components that are in short supply.

So, looking at this, the market is expecting inflation near term to be fairly significant. It's still not quite sure when it comes to a longer-term basis.

[Please reference slide 16] So the next graph looks at real yield, and the real yield has tended to be important for a fixed income investor, because this is really dictating what you're going to tender. And so, we've got a 30-year TIPS in blue, and the orange line is the 10-year TIPS, and the 5-year [TIPS] is green.

And you look at this, and you look at that 2010 to sort of 2013, and [the] economy's slowed, you've got a lot of QE going on, and that real yield goes negative. Doesn't look that dissimilar to 2019-20, that period of time.

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What is interesting is a rather quick—well, keeping up the quick reversal, you'll see sort of mid-'13, a lot of that has to do with the taper tantrum when the Fed said, "We may stop QE or slow it down," and the

market had a real hiccup and a problem. That's a lot of what's being dealt with there.

Looking to the far right, you see a spike up pretty rapidly in real yield; in the 30-year, it actually goes positive, from negative. The 10-year goes from minus 1% to about minus 60 basis points, but the 5-year doesn't move. That's a function of two things. One, there is this expectation of near-term inflation being high and two, a 5-year TIP bond is still very much tied to Fed funds policy. So, it just tends to move only when that policy moves.

So, thinking forward, a couple of things to keep in mind is we look at the 10-year and we look at the 30-year and said okay, we can easily see these return to real yields that maybe are 75 to 125 basis points, or that number that looks—if you look at 2014, '15, ;16. '17, along in there. Until the Fed changes its policy, you probably don't see much of a change out of the 5-year. This goes a long way to explaining why the 1-5 year TIPS index had a positive return. It's price movement. This price didn't move nearly, very much at all, while intermediate and long-term TIPS indices both had negative returns.

The other thing it tends to show you is when you look through this, you realize, well, I'm going to go from a negative real yield to a positive

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real yield. That's going to result in price decline, negative return for bond, I'm going to make the rest of my money in inflation. I'd better be very right in what I think the level of inflation's going to be because that's the only way I'm going to get a positive return out of this investment.

(00:24:03)

So, we looked at this and said you could easily see this shift last for multiple quarters, because we look in the past of this 2010-'14 period and see that this shift did take a considerable amount of time.

[Please reference slide 17] So I want to shift gears at this point and look into the household and spend a few minutes on sort of fiscal policy that went on.

The graph on the left only goes through February, so it does not include the \$1,400 round of checks that were sent out to households. This is all prior to that. It's a year where you look at, okay, what was the change in disposable personal income year over year. And it's roughly 8%. And you look at the components that got you the 8%, and it was either the new fiscal relief which is "I sent you the \$2,300 check" or "I sent you the \$900 check", plus if you were unemployed, there was a supplemental unemployment benefit that was sent to you. Or the preexisting sort of automatic stabilizers that are out there such as Medicare payments and

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Medicaid payments that can be made in unemployment benefits. So, everything was driven by that fiscal policy action, not by anything else.

On the right-hand side, the survey of going, okay, we're going to ask the household, well, what are you going to do with the check that we've sent you? And the blue line—they have three of them here, there's round one from June of '20, there's round two from January of '21, and then the expectation for round three, which is March of this year—the blue line is what percentage of people that were asked the question are going to save it. Well, the first one, about 36% of the people were going to save it. The last one, 42% of the people were going to save it. So roughly the same percentage of people said, "I'm going to pay down debt," which meant a lesser percentage of people were actually going to spend it.

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And this is one of the things, when you look—they look this survey—where Congress said, "Okay, we could have a short-term inflationary problem without a long one because the consumer is receiving these checks, their short-term sugar highs didn't go away and oh, by the way, they're going to save most of it or pay down debt, they're not going to spend it."

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The good news is balance sheets improve for a household. So other side notes of—I don't know if it's necessarily good or bad—is that saved portion has found its way into stock markets, bond markets, savings accounts, just other sorts of savings instruments, because it had to go somewhere. But the main thing is, you're not getting it—according to this—necessarily the big bang for the buck in consumer spending that you thought you were going to get by sending this money out. Keep in mind that the consumer is somewhere around two-thirds of economic activity in this country.⁶

[Please reference slide 18] So looking at the benefits, on the next slide, this has had for the consumer and for businesses, the left-hand charts look at bankruptcies in thousands. And interestingly, if you look at that 2020 period, those numbers not only declined, they are less than the expansion that was going on between 2014-2018. So, bankruptcies are way down.

On the right-hand side, it's a look at 60-day delinquencies for various consumer debts, whether it's autos, mortgages, other uninsured debt, and credit cards. Now, do note that credit cards [data] is a 90-day delinquency. The February 2020 box and the February 2021 boxes are

⁶ Source: Bloomberg

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highlighted. Auto delinquencies up slightly versus a year ago but down from their peak in January. Credit cards, significantly lower. It makes sense; people paid down debt, that's probably the first debt that they went and paid down. Mortgage delinquencies are down significantly. And other insured is down as well. So, the consumer looks to be in good financial shape, and so does have a potential to spend.

(00:28:10)

And the next chart looks at that potential to spend.

[Please reference slide 19] So there's two, three things we're looking at here: personal savings, disposable income, and then personal outlays. Keep in mind again, these do not include March data. This is just February data that's out. The dotted lines represent, well, what was the pre-pandemic trend that was going on for those.

So, the savings rate has become very elevated. It's about, now, \$1.7 trillion. If we put in the \$1,400 that were sent out in March, it could easily approach something that looks like \$2 trillion. Disposable income is up, again, though most of it is in transfer payments and from government payments, not from actually salary and benefit, although you might see that start to change as the unemployment rate declines. And then for obvious reasons of just limited scope of activity that can go on,

consumption is lower. So, there is a pent-up savings in here that could get spent, thus leading to a longer-term increase in economic activity. This is an open issue, and we have no idea if it [will] continue—you know, we just know the potential's there. There's nothing in history that necessarily we can lean to that says oh, that's definitely going to happen. But this is one of the indicators that someone who thinks longer-term inflation is going to be more elevated will look to and point to as data that says, "That money will get spent, inflation will tend to be higher for a longer period of time."

(00:29:50)

[Please reference slide 20] So shifting now to corporations, specifically we're looking at high yield and we're looking at leveraged loans and we're looking at distressed—we're looking at defaults. And if you look in the past, depending if it was loans or high yield bonds, the default rates in downturns would peak in the 6-10% range if it was in the early 2000s, the 2008-9 period was somewhere between 10% and 14%, and now we've seen a peak in bonds at 5% and loans of a little less than 4%.

And why is that is really, you're looking at, "I've got a zero interest rate policy, significant amounts of QE, I've got a fiscal policy that's been very strong putting money into the system, and there's a plethora of government-backed lending programs to businesses. All this was

designed to provide the liquidity to bridge a company through the recession caused by the stay-at-home associated with the pandemic. And so, we've truncated the default cycle.

Now, whether that continues is a different story but for now, we've truncated that happening, those policies had a beneficial action to them on the corporate level.

So how did we do this and what did the corporations do to sort of help them truncate this default scenario starts on the next page.

[Please reference slide 21] So this graph just looks at net debt and its change on a year-over-year basis. Europe is in here and North America. I'm only going to focus on North America for my comments. And you see a rather dramatic decline in the year-over-year change in net debt in the last year or so. Now, keep in mind net debt is okay, I take all my debt and I subtract whatever cash I've got on the balance sheet from it.

So, this past year, corporations did everything they could think of to build cash on the balance sheet in order to survive the economic downturn that was forced upon them. They did it from, some raised equity, lots raised debt, you know borrowed money, put money on balance sheet as cash. And then they did other things internally to try to generate as much cash as they could, and I'll show you that in a minute.

(00:32:14)

[Please reference slide 22] The next graph just shifts that out, says well, let's just look at total debt, then you see a downturn in total debt as well. Not as dramatic but you do see a downturn.

[Please reference slide 23] And so what we think was the cause of this is the following graph—this takes a minute to go through. So, you're going to take cash flow from operations as a percentage of operating profits—that's the red line for North America. And for this last expansion, it's 30-50%, 30-60%, it's sort of bounced up and down, and now it's more than 120% of operating profits.

Well, what was going on? What caused that? Well, that was the massive amount of "I need to generate cash as quickly as possible to survive this downturn." So how do you do it? I liquidate my inventory and I don't reorder. I lay off people. I collect my receivables as fast as I can. I pay my payables as slow as I can. All those things to try to generate cash, and the cash that they generated, largely from inventory liquidations, all went to pay down debt.

Now, the types of debt that was being paid down tended to be that debt associated with inventory.

But looking at this, you go, probably not sustainable going forward. Again, looking back at the shortages you see and looking back at the backlogs that you find in supply chain and the bottlenecks that are going on, this is because companies are now scrambling and trying to rebuild inventory under the sense that they're going to have increasing sales. So, the benefit you got from this cash flow from operations generating such a positive cash flow yield is not going to happen in the future. It's going to go away. So, it helped you out to get through this pandemic but now it's going to go away. You might actually see debt tending to go up some as money is borrowed to finance inventory, other working capital needs.

(00:34:17)

[Please reference slide 24] So I'm going to close at this point on this last graph looking at real GDP. So, it comments on growth. Looking at this, this is a survey done by Bloomberg, all go out and survey economists on what they think the economy is going to—how fast real GDP is going to be over the next year. This is a year-over-year number that's being calculated. The estimates are the dotted line, the actuality is the dark blue line.

So, 2021, these economists that have been surveyed—we'll just leave it at that—are looking for real GDP growth of slightly over 6%. To

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put that in some context, over the last 50 years, the highest number was in 1984 at 7.3%. So, this is one of the largest sort of downs and ups we've ever seen. It was down almost 4, now it's estimated to be up almost 6.

Interesting though, when you look at 2023, you go back to what was your real GDP growth of your past expansion. You're no better off than you were; you just have this cyclical recovery, and that was it. This is what's a concern for us because when you think about the fact that I've got more government borrowing, I've got more corporate borrowing, but I'm not going to have—according to economists—necessarily more economic growth, how am I going to service that debt?

So yes, we may have truncated the default cycle but we may not have eliminated it because if the growth isn't there, how are these companies going to refinance the debt and how are these companies going to reduce the debt that they have outstanding, back to a more normalized level? And if it can't be done from growth, and if inflation doesn't continue for a long period of time, because the growth doesn't help push that along, you're only left with monetary policy and trying to keep interest rates low just so they can service the debt.

(00:36:29)

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So, we look at this, and we continue to see this as a long-term, potentially systemic problem for the high yield market and the levered loan market, and it wouldn't surprise us to continue to see bankruptcies where the recoveries are low—and low by historic standards.

[Please reference slide 25] At this point, I'm going to turn it over to Abhi, who is really going to kind of go into some more detail about pricing, how we're getting price and how we're getting compensated for these types of risk, and then look more deeply at what we've done within the portfolios to try to manage through this difficult environment.

Abhijeet: Thank you, Tom. Let's start by reviewing quickly what the market looked like during the quarter and what it looks like now.

The punchline here is that not much has changed in the last three months. Yes, as Tom discussed, the Treasury yield curve steepened, but that started from historically low levels. So those were big moves on a relative basis but on an absolute basis, which is how we look at the world, you're still not getting paid much.

[Please reference slide 26] As an example, this chart shows the yield and spread on the aggregate bond index, which is a proxy for the broad investment grade bond market. The spread was essentially unchanged during the quarter, but with the steeper yield curve impacting this index,

which has a duration of approximately six years, the yield increased by about 45 basis points, which you can see as that tiny little hook upwards on the right side.

(00:38:01)

But even with that move, if you zoom out and look at the entire history, the yield is still near its historical low.

[Please reference slide 27] The next chart shows yield and spread for short-duration investment grade bonds. With a duration of less than two years, this index wasn't impacted as much by the steeper curve, because the front end of the yield curve didn't move much. The spread here was also essentially unchanged during the quarter. The overall yield on these short-duration bonds reached a new low in the last three months. They are a smidgen higher now, but still historically low.

[Please reference slide 28] When looking at yields on short- versus long-duration bonds, one might ask: why not buy longer-duration bonds to get more yield? That same question could have been asked last quarter and, as Tom pointed out earlier in the presentation, it would not have been a good idea if you had bought long-duration bonds.

Long-duration bonds had their worst quarter ever, with the aggregate bond index itself losing almost 3.5% during the quarter. At the

end of last year, we tried to give investors a heads-up about this risk by showing this chart. This chart shows the duration on the aggregate bond index, and the ratio of yield-to-duration for that index. The yield-to-duration ratio measures how much return you get per unit of duration. It's a way of measuring how much you're getting paid for the duration risk. As shown by the green line, this ratio ended last year at a historic low. It's a little bit better now, but not by much. In other words, it's still true that investors are getting historically low compensation for duration risk.

If you own long-duration bonds and you have a lot of conviction that rates are going lower or won't change, maybe then it could work out well. On the other hand, there appears to be a lot of momentum towards higher rates, which means that owning long-duration bonds could be painful.

(00:39:52)

[Please reference slide 29] Switching gears to high yield, not a lot has changed here either. Spreads are lower. Yields are a little lower too. In fact, the high yield index yield overall reached a new low during the quarter. CCC bonds had their spreads recently fall below 500 basis points, which is a level last seen before the dotcom bubble burst and before the

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Great Financial Crisis.⁷ It's hard to see how this is attractive to own. It seems like you have to make a bet on above-trend economic growth and persistently low yields for this return profile to be attractive. We don't like that bet. At this point, it's just so expensive that these incremental moves lower just cause us to shake our heads.

[Please reference slide 30] Finally, this chart shows the leveraged loan index. Spreads here are lower as well. It's a similar story. This market has also become more expensive.

So, to wrap up, spreads across most of fixed income are lower or essentially unchanged, depending on the asset class. Despite a steeper yield curve, yields aren't much more attractive so the market overall is still very expensive and the opportunity set is limited.

[Please reference slide 31] With that, let's review New Income, starting with performance.

The bottom right of this table shows that New Income returned 45 basis points during the quarter, before fees. The largest contributors to performance were the corporate holdings shown towards the bottom of the table. Overall, the corporate holdings benefited from higher prices on the

⁷ The dot-com bubble (also referred to as the tech- or internet bubble) peaked in March of 2000; the Great Financial Crisis (also referred to as the Global Financial Crisis, or the Great Recession) began in 2007.

back of a continued compression in credit spreads which we just discussed.

The second largest contributors to performance were CLOs, shown near the top of the table. The CLO return was driven by a combination of higher prices and coupon payments.

The third largest contributors to performance were asset-backed securities backed by auto loans and leases, shown in the second row from the top. There, the return predominantly came from coupon payments.

The largest detractors from performance during the quarter were 3-year and 5-year maturity Treasury notes, which declined in price due to rising market yields. We'll discuss these Treasuries more in a few minutes.

The second and third largest detractors from performance were agency commercial mortgage-backed securities, which are shown under CMBS, and nonagency residential mortgage-backed securities backed by repurchasing mortgages, which are included under CMO. In both cases, the return was predominantly impacted by fast prepayment speeds against dollar price premiums on the portfolio's bonds.

(00:42:25)

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At the sector level, there were no other meaningful detractors from performance, although there were individual bonds in some sectors that detracted from performance.

It's worth noting that despite the negative impact that the Treasuries had on the portfolio return year to date, the Fund ended the quarter in the top quintile of short-term bond category funds with respect to year-to-date performance, and performed [better than] the Bloomberg Barclays Aggregate Bond Index and the Bloomberg Barclays 1-3 Year Aggregate Bond Index.⁸

[Please reference slide 32] These next pie charts show the New Income portfolio broken down by investment idea, which is how we tend to think about the portfolio.

During the quarter, we mostly invested in short-duration, highly rated asset-backed securities, CLOs backed by corporate loans, CLOs backed by commercial real estate, and Treasuries. To fund these investments, we used cash and equivalents, and sold some Treasuries and some of the shortest-maturity holdings in the portfolio.

⁸ Short-term bond category funds refers the Morningstar Short-Term Bond category. Comparison to Morningstar categories or indices are for illustrative purposes only. The Fund does not include outperformance of any index or Morningstar category in its investment objectives. **Past performance is no guarantee, nor it is indicative, of future results.**

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As shown on this slide, the CLO exposure increased from about 18% of the portfolio at the end of 2020 to about 23% at the end of March. The auto ABS and equipment ABS exposures declined because of sales and maturities more than offsetting our purchases.

Another notable change is that the cash and equivalents ended the quarter at less than 1% of the portfolio. It turned out that a significant portion of our investment activity occurred towards the end of the quarter, which resulted in the low cash and equivalents. Quarter end statistics represent a snapshot in time and may not be representative of the typical exposure. Specifically, the cash and equivalents at the end of the quarter was abnormally low and does not represent our typical ongoing cash and equivalents balance. Having said that, even with the low quarter end cash and equivalents balance, the Fund still maintains significant liquidity, most notably with over 21% of the portfolio in Treasuries.

(00:44:20)

[Please reference slide 33] Speaking of Treasuries, the last big change during the quarter was the increase in the Treasury exposure from 14% of the portfolio to 21% of the portfolio. This Treasury exposure represents our portfolio hedge, as we've been referring to it. This position has been in place for a couple of quarters now, and we've discussed it in detail in past

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webcast and investor letters. But the idea is that it's designed to add value to the portfolio if the economic recovery loses traction or it gets worse.

There has no doubt been progress against COVID-19, but we're not out of the woods yet. In the US, a lot of people have been vaccinated, but it's uneven across states, and a lot of the vaccinations thus far have been the low-hanging fruit, so to speak, of people who want a vaccine or are easy to reach. In other countries, the COVID situation is quite grim, and vaccinations are nowhere near where they need to be to reduce infections and deaths. Global progress is important because for the U.S. to reach its full growth potential, the rest of the world must also make some more progress, and unfortunately, that has not yet been the case. Vaccine hesitancy and the supply chain are issues that have to be overcome, especially with question marks around two prominent vaccines that are important for reaching people who are far from the supply chain.

Finally, the rise of more transmissible and possibly more dangerous variants creates a race between the virus and the pace of vaccinations. To borrow a line that we heard recently, we're not out of it until everyone is out of it. Anything that gets in the way of herd immunity extends the economic growth curve and possibly bends it down. We've hedged against this possibility of weaker growth and inflation by investing in

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longer-maturity Treasuries. We expect that longer-duration Treasuries would add value to the portfolio in a weak growth environment due to greater monetary easing and/or a change in market expectations of future tightening.

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Originally, this Treasury position was comprised of 5-year maturity Treasury notes. As January of this year rolled around, it appeared that the probability of stronger economic growth and more robust inflation had increased, which made it less appealing to have exposure to the possibility of a steeper yield curve.

Because of that, we sold half of our 5-year Treasuries and bought 3-year Treasuries, with the result that the duration of the Treasury position decreased from 5 years to 3.5 years, as shown on the third row of this slide. That reduction in duration was helpful when rates rose during the quarter, as we ended up taking less of a hit than we would have had we left the duration of the Treasury position at five years.

Overall, even with the Treasury position, the overall portfolio duration is still quite short, at 1.5 years, shown at the bottom of the second to last column.

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[Please reference slide 34] Lastly, we're not surprised that the Treasuries had a negative return. We highlighted this possibility in our prior discussions about the Treasury hedge. We also emphasized that this Treasury position is not a set-it-and-forget-it type of investment. Much like we did this past quarter, we actively managed the position to try to maintain an upside versus downside return profile that is consistent with [the Fund's] return[goals], including [its] [goal] of a positive 12-month return for the overall portfolio.

That upside versus downside is shown on this slide. This slide shows a simulated portfolio returns before fees over the next 12 months based on the yield changes assumed on the x-axis.⁹

(00:47:50)

For example, if the yield on every investment in the portfolio increased by 100 basis points, regardless of maturity, the portfolio's return before fees would be approximately 1%. The bar on the far right-hand side shows that every investment in the portfolio could withstand an increase in yield of greater than 200 basis points over the next 12 months, and the portfolio should still have a positive total return.

⁹ Stress Test data is hypothetical and provided for illustrative purposes only, and is intended to demonstrate the mathematical impact of changes in yield.

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[Please reference slide 37] We will conclude the FNI—sorry, the New Income discussions by looking at the credit exposure. The bottom left of this table shows a credit exposure, defined as investments rated BBB or lower, increased over the last three quarter—over the last three months—ending the quarter at about 8.7% of the portfolio.¹⁰ This increase came by way of investments in short-maturity leveraged loans and newly issued short-maturity bonds backed by nonperforming residential mortgages.

As you can see on this table, much of the increase came in unrated investments. We consider those investments as credit because they are not rated, but that does not necessarily mean that they have high yield-like risk. They could have investment grade type of risk but nevertheless, for conservatism, we count them as credit.

[Please reference slide 39] The investments that we made this quarter are consistent with the attractiveness of the market, or lack thereof. As we discussed earlier in the presentation, duration is expensive so we don't own that much of it. And credit is expensive so we, similarly, don't own much of it. And what we do own in credit, we believe is well-covered and

¹⁰ During the audio presentation, the presenters stated incorrectly that the credit exposure for FPA New Income, Inc. increased to 9.2% during the quarter. The actual numbers are shown above.

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relatively short in duration to limit mark-to-market risk in the event the market reprices to more normal levels.

Let's move on to Flexible Fixed Income.

[Please reference slide 40] The bottom right of this slide shows that Flexible Fixed Income returned 89 basis points, before fees, for the quarter. The largest contributors to performance during the quarter were the corporate holdings which, overall, benefited from higher prices.

The second largest contributors to performance were CLOs with their return driven by a combination of higher prices and coupon payments.

(00:50:01)

The third largest contributors to performance were equipment asset-backed securities, with the return mostly due to coupon payments.

At the sector level, there were no meaningful detractors from performance during the quarter, though there were individual bonds in some sectors that detracted from performance.

[Please reference slide 41] Here we show the Flexible Fixed Income portfolio broken down by investment idea. The largest areas of investment during the quarter were CLOs backed by corporate loans, CLOs backed by real estate loans, newly issued bonds backed by nonperforming

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residential mortgages, asset-backed securities, and leveraged loans.

Approximately 30% of the capital invested this quarter was in credit investments which are rated BBB or lower, and the rest of the investments were in high-quality bonds rated single A or higher.

[Please reference slide 42] These investments led to the credit exposure increasing a bit, to 23.3% of the portfolio from approximately 20% of the portfolio at the end of 2020.¹¹ That's shown at the bottom of this table.

That increase reflects the impact of new investments, and also reflects amortization and payoffs of some existing positions. The increase is also net of two investments that we sold during the quarter, as we took advantage of the runup in bond prices to sell those investments at prices where the risk versus reward was no longer attractive.

Given current market conditions, we will continue to be opportunistic about investing in credit. The Flexible Fixed Income Fund has the capacity to own a lot of credit, but we will only do so when the price makes sense. In other words, we won't own credit just for the sake of owning credit.

¹¹ During the audio presentation, the presenters stated incorrectly that the credit exposure for FPA Flexible Fixed Income Fund increased from 21% (at the end of 2020) to 23.5% (at the end of Q1 2021). The actual numbers are shown above.

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[Please reference slide 43] Rolling everything together, this slide shows that the Fund had a yield-to-worst of 1.83% and an effective duration of 0.9 years. A significant portion of the portfolio is in floating rate bonds, which shortens the effective duration, which you can see when comparing the duration of 0.9 years to the average life of 2.3 years.

(00:52:03)

[Please reference slide 44] Some investors may compare New Income and Flexible Fixed Income. As we showed earlier, Flexible Fixed Income has a higher yield-to-worst than New Income, but it also has more credit exposure. This chart shows the simulated 1-year return before fees for Flexible Fixed Income based on different changes in yields shown on the x-axis.¹² Please remember that the changes in yield shown here could come by way of any combination of a change in risk-free rates and spreads.

As a heads-up for those comparing this chart with the same New Income chart, in comparison to New Income, the left side of this chart, where yields decline, has a similar return profile to New Income, whereas

¹² Stress Test data is hypothetical and provided for illustrative purposes only, and is intended to demonstrate the mathematical impact of changes in yield.

the right side where yields rise has a higher return profile than New Income.

But there's no free lunch. Because Flexible Fixed Income has more credit exposure, it is more susceptible to wider spreads than New Income. As such, we would expect a larger drawdown in a selloff than New Income would see. By "larger", we don't think Flexible Fixed Income would have a drawdown as severe as the high yield index, but it would be something more than New Income.

For reference, in 2020, Flexible Fixed Income had a max drawdown of 3.3% versus New Income's max drawdown of 2.9%, both of which happened in the first quarter of last year. At that time, Flexible Fixed Income started the quarter with a credit exposure of approximately 10%, and ended the quarter with a credit exposure of approximately 13%; whereas New Income's credit exposure at that time was 6.5-7.0%, Flexible Fixed Income can afford to take more risk because it is managed to a 3-year time horizon, whereas New Income is managed to a 1-year time horizon. Investors should choose a risk profile and horizon that they're most comfortable with.

And with that, we can take questions.

(00:53:56)

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Kristina: [Please reference slide 46] Thank you, Abhi, and thank you to those of you who have submitted your questions in advance. We addressed some of them in the prepared remarks and we'll move on to outstanding ones right now.

So, number one: to help me understand the difference between New Income and Flexible Fixed Income, what sort of market environment or issuer-specific events would cause Flexible Fixed Income to underperform New Income by a significant margin, for example over 1%.

Abhi?

Abhijeet: Thanks, Kristina. So, it's hard to imagine a specific issuer event causing underperformance by greater than a percentage point because, in general, our largest positions in Flexible Fixed Income—and New Income for that matter—are about a percentage point of the Fund, of their respective [portfolios]. So, you would have to believe that we have positions that are held in Flexible Fixed Income but not in New Income that are temporarily or permanently worth zero, which is hard to imagine.

From a market perspective, or a market environment perspective, if you had a dramatic selloff in credit so that a significant widening of spreads occurred, you could see a significant deviation in performance between the two funds, but it really depends on how long that lasts.

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As we just mentioned in the prepared remarks, Flexible Fixed Income at one point last year was down 3.3% whereas New Income was down 2.9%. But then Flexible Fixed Income ended up outperforming New Income the rest of the year.

And we already spoke about the difference in credit exposure at that point in time. You can use the portfolio stress test that we showed in this presentation to estimate where differences in performance could show up. [Please refer to slides 34 and 44]. So just as an example, you could say that Flexible Fixed Income has more credit and more spreads—or sorry, more spread exposure. So, if spreads were to widen significantly, you could perhaps look at the right side scenarios on the Flexible Fixed Income portfolio stress chart, and perhaps tell yourself, well, in that environment, maybe rates rally and so the Treasury hedge in New Income ends up being beneficial.

And so perhaps look at the left-hand side of the portfolio stress test chart for New Income and compare the returns under those outcomes.

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But that's all, of course, as of today. From a longer-term perspective, it is possible at some point that the portfolios have significantly greater differences in credit exposure, which would tend to

lead to scenarios where the difference in performance could be more significant.

Kristina: Thank you, Abhi. Next question: do you think the Fed might formally adopt yield curve control?¹³ How might that affect your strategies? Also, how might the higher inflation affect how you manage your strategies? Tom, will you take this? Tom, I think you are on mute.

Thomas: Thanks, Kristina. So, yield curve controls. Sort of a quick remark is we could write a white paper on the question, and it's a great question at that because this is, as we like to say, it's a possibility; we just don't know what the probability is.

It has been used in the past; it was used World War II, sort of 1942, and officially saw the end around 1951. And currently, Japan is using some yield curve controls, as is Australia. So, it's a possibility. We just don't know the probability of it. How it can impact us from an investment standpoint is I spent time today sort of looking at implied inflation and real yields and shapes of yield curves. Those are real-time datapoints that were used to help us analyze where the marketplace is, what investors

¹³ Source: Brookings.edu; Under yield curve control (YCC), the Fed would target some longer-term rate and pledge to buy enough long-term bonds to keep the rate from rising above its target. This would be one way for the Fed to stimulate the economy if bringing short-term rates to zero isn't enough.

are thinking about as far as direction of interest rates and their feelings about inflation.

(00:58:03)

If we were to see yield curve controls, that would be a significant increase in—how do I want to say it—this sort of really making those indicators much less useful

Yes, quantitative easing impacts the usefulness of—it distorts the data. But I think yield curve controls would distort them even more.

And if you think back, any time governments or central banks have decided to try to control the price of something, the marketplace for that something has become distorted and it's become very difficult to deal with. And there's been, also it's potential disfigurements that go on, and the exit is usually ugly.

That's not to say they won't do it, and it's not to say that it won't make life somewhat more difficult for us. We've talked about it in letters and we've said, "Look, these things do make it more difficult for us but they don't make it impossible.

If we continue to work through the thought process—and then we'll see it for New Income first where you try and say okay, I'm stressing myself and trying to get to a positive return in a 12-month period—if you

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continue to focus on that [goal], it helps to help mute the problems that would come up from the yield curve control.

As it relates to inflation, if inflation increases and you have zero rates or negative real rates, it's difficult for New Income to reach its [goal] of CPI plus 100. There just aren't enough things out there you can buy that will get you a yield 100 basis points above inflation to make that work without jeopardizing your ability to get 12-month returns positive.

(01:00:02)

So, when we've been faced with that, and we were faced with that in that period of 2010 through 2013, we chose—and spoke about choosing—that we would protect the investors' capital in New Income and we would do what was necessary to do in order to get a positive absolute return. It just means we may not make that second [goal] and the return could be below CPI+100.

When you look at Flexible Fixed Income, as Abhi pointed out, it has a longer period, so a 3-year positive absolute return [goal], it's trying to get CPI plus 200, it has a lot more of an ability to take on credit.

Higher inflation doesn't necessarily make it more difficult for us to reach those[goals], and albeit CPI plus 200 over a 3-year period could be difficult, it is somewhat easier to reach because you have more flexibility in

the credit you can take on, and more flexibility to take a return that might be negative in one year.

I'll just close with—it's an excellent question to ask, I think it's something investors need to spend time and think about, and realize this is a possibility that could occur, and that yield curve controls do occur. It will continue to make the fixed income markets a very difficult place to invest in. It will tend to distort things like levels of inflation—or levels of debt on companies, those sorts of things. It will start to distort debt being used for nonproductive purposes. It has lots of side effects that aren't particularly, aren't too particularly attractive, the last of which being is, is what's—if you want to go back and look at history—when we instituted yield curve controls before [and] during World War II, there became a huge fight over the independence of the central bank, because the politicians wanted yield curve controls to continue. They liked the fact that you could make the bond market have low rates and be very constant and very stable. It helped them in what they wanted to do from their various policies they wanted to put in place. The central bank didn't like it because they realized, "I can't control and place, and I can't control the economy in any way, shape or form."

(01:02:25)

So, loss of an independent central bank is the other really big risk with yield curve controls and something that we should be concerned about.

Kristina: Thank you, Tom. And there is one more question that came in during the webcast, in response to your market slides. Is the sharp rise in savings also a byproduct of forbearance programs, for example people not paying rent or mortgage?

Thomas: When you looked at the graph that talked about income, personal income, disposable income, one of the elements that's in there, it talks about the various programs. It tends to want to include forbearance programs on rent and forbearance programs on mortgages. Yes, it does show up in that elevated savings level. It's hard to have found a quantification of how much, but we know it's there.

And so yes, it's a component of it, and it's that counter to, oh, I've got \$1.7 trillion of pent-up savings that, once the economy's doing great, will just go flow into the economy in the way of spending. Well, not all of it, right? Because there's some with this sort of forbearance of mortgages and rent. So, what that will sort of equate to is okay, it's going to go there, not necessarily to other types of spending.

(01:03:55)

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So, it's sort of the counter to, "I could get a lot of consumer spending for a long period of time at an elevated level," because you know that some is in the forbearance area. It's just been very hard to quantify how much that is of that \$1.7 trillion, and how it's really going to work out.

But it is a component of it; it's a reasonable question to ask. You think, oh okay, it's a counter to all that money could be useful if it just gets spent by consumers.

Kristina: Thank you, Tom. These are all questions for today. We want to thank you for listening to FPA New Income and FPA Flexible Fixed Income First Quarter 2021 webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: [Please reference slides 47-54] 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

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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 our 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.

(01:05:52)

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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Any mention of individual securities or sectors should not be construed as a recommendation 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.

It should not be assumed that future investments will be profitable or will equal the performance of the security or sector examples discussed.

Any statistics or market data mentioned during this webcast have been obtained from sources believed to be reliable, but the accuracy and completeness cannot be guaranteed.

You should consider each Fund's investment objectives, risks, and charges, and expenses carefully before you invest. The prospectus details each Fund's investment objectives, policies, risks, charges, and any 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.

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