

FPA International Value Fund FPIVX

Analysis

Taste acquired.

By Dan Culloton 4/3/2019

FPA International Value has charted its own way to a Morningstar Analyst Rating upgrade to Bronze from Neutral.

This is an old-school, iconoclastic stock-picker's strategy. Its manager has a strong investing pedigree and practices a wide-ranging approach. It has put up sound risk-adjusted results since its December 2011 inception, and manager Pierre Py's supporting cast, though small, has gained stability and experience.

The process here is rigorous, idiosyncratic, uncompromising, and hands-on. Py, who worked as an analyst for the manager of Gold-rated Oakmark International OAKIX, David Herro, logs a lot of frequent flier miles in search of financially sound companies that have competitive edges and decent managers with shares trading at discounts to their estimated intrinsic values. He emphasizes face-to-face meetings almost as much as building financial models with the goal of finding up to 35 stocks that meet his stringent requirements. Py drives the process, so there is some key-person risk here, but after experiencing some turnover in its early years, his team has settled down. The squad of three analysts has not changed since 2017, and while young, they hail from well-regarded value shops, such as Artisan and Brandes. Py also can call on Greg Herr, his comanager at world stock fund FPA Paramount FPRAX, for help.

Py and his cohorts, however, still produce a portfolio that often tests fundholders' fortitude. It's concentrated and eclectic; its region, country, and sector allocations rarely look anything like its prospectus benchmark's--the MSCI ACWI Ex-U.S.A. Index. Py considers himself an all-cap investor, but the fund has spent most of its life in the foreign small/mid-blend Morningstar Category. He goes where he finds sufficient discounts to intrinsic value and will let cash build if he can't find any. Overall, it has captured less of the non-U.S. equity market's downside than peers, but there have

been periods when concentration and contrarianism have worked against it. Still, the fund's lifetime risk-adjusted returns through March 31, 2019, beat relevant bogies and rivals.

Process Pillar: Positive

This fund is an old fashioned, bottom-up, benchmark-ignoring, cash-hoarding, concentrated, value-oriented contrarian. Its high-conviction approach isn't for everyone, but manager Pierre Py's faithful adherence to it helps earn the fund a Positive Process rating.

Py relies on fundamental research to find 25-35 companies with solid businesses, valuable assets, and/or promising management teams, but have shares trading at 70% of their estimated intrinsic values. He builds a concentrated portfolio that often strays across market-cap and style boundaries, but he has shown a predilection for small- and mid-cap stocks so far in its relatively short history.

Py uses a variety of methods to generate ideas but primarily depends on extensive travel and company visits with his analysts to build an approved list of companies, the shares of which he can choose when their prices look right. He will bide his time learning about firms, their competitors, suppliers, customers, and managements until valuations fall into his range. Like other FPA managers, he allows cash to build if he cannot find stocks that fit his criterion--it has been more than 40% of assets. The fund will hedge currency exposure once the free cash flow exposure of its underlying holdings to any currency exceeds 10%. Py will concentrate assets in the fund's top holdings and own small, illiquid stocks and securities. Estimated capacity is \$3 billion-\$5 billion.

Stock-picking drives the size of this portfolio's cash stake, individual positions, and sector and regional allocations.

At 2019's start the fund had more than one fifth of its assets in cash. That's less cash than its since-inception average of 30%, as manager Pierre Py

Morningstar's Take

Morningstar Analyst Rating



Morningstar Pillars

Process		Positive
Performance		Positive
People		Positive
Parent		Positive
Price		Neutral

Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

 Gold  Silver  Bronze Neutral Negative

Fund Performance

	Total Return %	+/- Category
YTD	10.64	1.05
2018	-10.81	8.32
2017	27.12	-4.47
2016	9.05	7.26
2015	-6.34	-10.13

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put money to work in 2018's rocky fourth quarter, particularly in Brazil where he bought healthcare company Notre Dame Intermedica Participacoes and Burger King do Brasil Assessoria e Restaurantes.

Py lets picks clump in sectors and regions. The fund had nearly 30% of its assets in industrial stocks, such as food and catering business Sodexo, and more than a fourth of its assets in consumer discretionary stocks. That's a lot riding on two sectors, but the individual picks are more diverse than their sector assignments indicate. The consumer holdings comprise a fast food chain, a funeral home, and retailers, while the industrial picks include a caterer, airline, and gas-mask maker. The fund remains focused on developed markets, but its emerging-markets stake has climbed to more than one fifth of total assets, almost all of it in Brazil.

The portfolio has pluses and minuses. Cash buffers downturns, and a focus on a handful of minutely researched stocks affords a shot at distinctive full-market-cycle returns. Cash can also drag, though, and sector, region, and issue concentration courts risk.

Performance Pillar: + Positive

Decent risk-adjusted returns justify a Performance Pillar upgrade to Positive.

Relative to its current foreign small/mid-blend Morningstar category, this fund looks average. Its 7.4% gain from its December 2011 inception through March 31, 2019, lagged the peer group's 7.7% mean and the MSCI World Ex USA SMID Index's 7.8% gain.

The strategy and its manager don't have much use for or pay much attention to benchmarks or style-based peer groups. In truth, this fund is different. It has a big cash stake and a distinct portfolio, consistent with manager Pierre Py's intent: achieving competitive absolute returns over a full market cycle with a concentrated, value-oriented, go-any-

where approach. Measured against that goal, results look solid. From its December 2011 inception through July 31, 2018, the fund has beaten its prospectus benchmark, the MSCI ACWI ex-USA Index, which has advanced nearly 6%.

Granted, the fund's average market cap since inception has been lower than that of the MSCI ACWI ex-USA Index, and the fund has lagged smaller-cap non-U.S. bogies. The fund's risk adjusted results, as measured by Sharpe and Sortino ratios, however, are much more competitive with relevant benchmarks and peer groups. It also beats both MSCI ACWI indexes when they're coupled with a 30% cash stake--this fund's since-inception average. Returns here can be lumpy, but also effective over a full market cycle.

People Pillar: + Positive

Pierre Py, lead manager here since the fund's start, has seen some teammates come and go, but the squad has been stable enough in recent years to earn a People Pillar upgrade from Neutral to Positive.

Py and his small team have demonstrated commitment, experience, and skill with this fund's high-conviction process. He's a former analyst at Harris Associates--the subadvisor to Gold-rated Oakmark International OAKIX--and started this strategy with fellow Harris alum Erik Bokota in 2011. Bokota left less than a year later.

There have been other changes since then, but none since 2017. The three-person analyst bench includes Analyst Jason Dempsey, who joined in 2013 from Artisan Partners; John Madden, a former analyst at NWQ Investment Management and Tradewinds Global Investors, who joined in October 2016; and John Harris, who arrived from Brandes Investment Partners in 2017. Former analyst Victor Liu came from Causeway Capital Partners in 2013 but went back in 2015. Py gets some help from Greg Herr, his comanager at FPA Paramount, a world-stock fund, and an FPA investor since 2007. The squad averages more than 12

years of experience with Py and 10 years without counting his tenure.

A solid, cohesive team is key to implementing this process, which requires a lot of travel and hands-on fundamental analysis. This squad is still young, but gives Py the support he needs.

Parent Pillar: + Positive

FPA earns a Positive Parent Pillar rating by living up to its slogan--investors first.

Steve Romick, the manager of FPA Crescent FPACX and one of the industry's most unique and successful value investors, now runs the firm with managing partner and CFO J. Richard Atwood and serves as its public face.

Like Romick and other now retired or departed luminaries of the firm, such as Bob Rodriguez and George Michaelis, FPA's investment teams strive to be uncompromising, patient, value-oriented investors. While the teams work independently, they share this absolute-return-focused philosophy.

That ethos remains even though there have been personnel changes and fund reorganizations in recent years. Those changes still bear watching, but the firm's clear identity and metier have helped it attract and retain a mix of experienced, like-minded investors and younger talent in their formative stages.

The firm overall and its largest strategy, FPA Crescent, have seen outflows in recent years, but capacity at its \$17 billion flagship fund still bears watching. The 64-year-old firm, however, has bolstered personnel and technology and does much else well. Fees are reasonable, and FPA managers eat their own cooking, focus on the long term, disdain trendy fund launches, avoid regulatory snafus, and write smart and engaging shareholder letters. It's still a capable steward.

Price Pillar: ● Neutral

The fund's 1.29% expense ratio roughly matches the 1.28% median for no-load foreign small/mid-

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cap funds, earning it a Neutral Price Rating. The same fee earned the fund a Positive rating two years ago, but the comparison group's median continues to fall, consistent with an industrywide fee trend. That said, the fund's tax costs have been below average, so far, thanks in part to the portfolio's negative capital gains exposure. That probably won't last, especially as the fund's turnover, which can increase tax and transaction costs, has spiked to more than 100% in recent years.



Unless otherwise indicated, Fund performance in the Morningstar Analyst Report is as of March 31, 2019.

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

Average Annual Total Returns (%)

As of Date: 3/31/2019	Since 12/1/11	5 Years	3 Years	1 Year	YTD	QTR
FPA International Value Fund	7.40	2.46	8.89	-3.48	8.49	8.49
MSCI ACWI ex US	5.87	2.57	8.09	-4.22	10.31	10.31

Inception of FPA International Value Fund was December 1, 2011. Periods greater than one year are annualized. Fund performance is shown net of all fees and expenses. Fund performance is calculated on a total return basis which includes reinvestment of all distributions. Fund performance does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares, which would lower these returns. Comparison to any index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

The Fund's total expense ratio is 1.35% (as of most recent prospectus). The Advisor has contractually agreed to reimburse the Fund for Total Annual Fund Operating Expenses in excess of 1.29% of the average net assets of the Fund (excluding brokerage fees and commissions, interest, taxes, fees and expenses of other funds in which the Fund invests, and extraordinary expenses, including litigation expenses not incurred in the Fund's ordinary course of business) through April 30, 2020. This agreement may only be terminated earlier by the Fund's Board of Trustees (the "Board") or upon termination of the Advisory Agreement.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. The Fund's net expense ratio as of its most recent prospectus is 1.29%. Current month-end performance data, which may be lower or higher than the performance quoted, may be obtained at www.fpa.com or by calling toll-free, 1-800-982-4372.

Please see important disclosures on the next page.

Important Disclosures

The data herein has been provided for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, FPA, or the distributor. The views expressed herein and any forward-looking statements are as of the date of this publication and are those of the portfolio management team. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, the Adviser, or the distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

Investments in mutual funds carry risks and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depositary Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks. Foreign investments, especially those of companies in emerging markets, can be riskier, less liquid, harder to value, and more volatile than investments in the United States. Adverse political and economic developments or changes in the value of foreign currency can make it more difficult for the Fund to value the securities. Differences in tax and accounting standards, difficulties in obtaining information about foreign companies, restrictions on receiving investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations, can all add to the risk and volatility of foreign investments.

Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds.

The Fund is non-diversified and may hold fewer securities than a diversified fund because it is permitted to invest a greater percentage of its assets in a smaller number of securities. Holding fewer securities increases the risk that the value of the Fund could go down because of the poor performance of a single investment.

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

Index Definition

Index returns are provided for comparison purposes only. Indices are unmanaged and index returns do not reflect transactions costs (e.g., commissions), investment management fees or other fees and expenses that would reduce performance for an investor. Indices have limitations when used for comparative purposes because they may have volatility, credit, or other material characteristics that are different from the Fund. The Fund does not include outperformance of any index in its investment objectives. It is not possible to invest directly in an index.

The MSCI ACWI ex US (Net) Index is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the United States. Net index returns reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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