



Not authorized for distribution unless preceded or accompanied by a current prospectus.

Average Annual Total Returns (%)

As of 12/31/2022	30 Years	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTD
FPA New Income, Inc.	4.16	2.57	1.88	1.35	1.24	0.05	-3.10	-3.10	0.60
Bloomberg US Agg Bond	4.55	3.10	2.66	1.06	0.02	-2.71	-13.01	-13.01	1.87
CPI + 100 bps	3.52	3.53	3.34	3.60	4.80	5.95	7.48	7.48	0.71
Bloomberg US Agg. 1-3 Yr	N/A	2.02	1.59	0.86	0.86	-0.42	-3.72	-3.72	0.90

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. Current month-end performance data, which may be higher or lower than the performance data quoted, may be obtained at www.fpa.com or by calling toll-free, 1-800-982-4372. As of its most recent prospectus, the Fund's total expense ratio is 0.58% and net expense ratio is 0.45%.

Periods greater than one year are annualized. FPA New Income, Inc. ("Fund") performance is calculated on a total return basis which includes reinvestment of all distributions and is net of all fees and expenses. Fund returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares, which would lower these figures. 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 Total Annual Fund Operating Expenses before reimbursement is 0.58% (as of the most recent prospectus). Effective March 31, 2022, First Pacific Advisors, LP ("FPA" or the "Adviser") has contractually agreed to reimburse expenses in excess of 0.45% 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, 2023. This agreement may only be terminated earlier by the Fund's Board of Directors (the "Board") or upon termination of the Advisory Agreement.

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, 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 www.fpa.com, by email at crm@fpa.com, toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.

Please see important disclosures at the end of this update.

Dear Fellow Shareholders,

FPA New Income, Inc. (the “Fund”) returned 0.60% in the fourth quarter of 2022 and -3.10% for the year ended December 31, 2022.

Sector	As of December 31, 2022
Yield-to-worst ¹	6.14%
Effective Duration	1.70 years
High Quality Exposure ²	90.1%
Credit Exposure ³	9.9%

Continuing its quest to reduce inflation, the Federal Reserve raised the Fed Funds rate by 75 basis points (bps) then 50 bps during the fourth quarter, bringing the year-to-date increase in the Fed Funds rate to 425 bps. In the process, bond yields rose to decade-plus highs and the bond market produced its worst annual return in centuries!⁴ While the path to higher yields in 2022 was painful to endure in the short term, we believe it has left us in the midst of the most attractive bond market we have seen in over a decade. Consistent with our actively managed, absolute return-oriented approach to investing, we intend to seize this opportunity to buy high quality (rated single-A or higher), longer-duration bonds which we believe will enhance the Fund’s short- and long-term upside versus the downside return profile. Though yields in credit (investments rated BBB or lower) are higher, overall, we do not yet see sufficient compensation to deem credit attractively priced versus the risk of permanent capital impairment. As a result, we continue to invest opportunistically in credit. The Fund’s credit exposure increased slightly to 9.9% as of December 31, 2022 versus 9.7% at September 30, 2022.

Cash and equivalents represented 3.7% of the portfolio at December 31, 2022 versus 0.6% on September 30, 2022. In addition, 7% of the Fund was held in Treasuries at the end of the quarter.

Portfolio Attribution⁵

Fourth Quarter 2022

The largest contributors to performance during the quarter were collateralized loan obligations (CLOs) backed by corporate loans. Most of these bonds are floating rate and benefited from an increase in their coupons during the quarter, along with an increase in price associated with lower spreads. The second-largest contributors to performance were the corporate holdings, with the return driven by coupon payments and higher prices on leveraged loans and bonds due to lower spreads, partially offset by lower prices on the Fund’s common stock holdings.⁶ The third-largest contributors to performance were long

¹ Yield to Worst (“YTW”) is presented gross of fees and reflects the lowest possible yield on a callable bond without the issuer defaulting. It does not represent the yield an investor should expect to receive. As of December 31, 2022, the Fund’s subsidized/unsubsidized 30-day SEC standardized yield (“SEC Yield”) was 3.89%/3.75% respectively. The SEC Yield calculation is an annualized measure of the Fund’s dividend and interest payments for the last 30 days, less the Fund expenses. Subsidized yield reflects fee waivers and/or expense reimbursements during the period. Without waivers and/or reimbursements, yields would be reduced. Unsubsidized yield does not adjust for any fee waivers and/or expense reimbursements in effect. The SEC Yield calculation shows investors what they would earn in yield over the course of a 12-month period if the fund continued earning the same rate for the rest of the year.

² Represents the Fund’s exposure to investments rated A or higher, Treasuries, and cash and equivalents.

³ Represents the Fund’s exposure to investments rated BBB or lower.

⁴ Source: Bloomberg.

⁵ This information is not a recommendation for a specific security or sector and these securities/sectors may not be in the Fund at the time you receive this report. The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

⁶ Common stock holdings represented 1.3% of the Fund at December 31, 2022.

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

maturity Treasury bonds, which had a duration of approximately 4.2 years and benefited from higher prices due to a decline in yields for 3-5-year maturity Treasury bonds.

The largest, second-largest and third-largest detractors from performance during the quarter were recently issued bonds backed by non-performing residential mortgages, residential mortgage-backed securities backed by re-performing mortgages, and asset-backed securities (ABS) backed by data centers, respectively. The prices of all three investments declined due to a combination of higher risk-free rates for short maturity bonds and an increase in spreads.

Calendar Year 2022

The largest contributors to performance for the year were CLOs backed by corporate loans. Most of these bonds are floating rate and thus saw their coupons increase throughout the year as the Federal Reserve raised the Fed Funds rate. In addition, prices on these floating rate bonds were insulated from interest rate related price changes, though they did experience lower prices as a result of an increase in spread throughout the year. The second-largest contributor to performance was cash, which benefited from an increase in yield as the Fed Funds rate rose during the year. The third-largest contributors to performance were Ginnie Mae project loan interest-only bonds with the return driven by income that more than offset price declines during the year.

The largest detractors from performance for the year were long maturity Treasury bonds which had a duration of 2.7 years to 4.5 years and whose price was negatively impacted by the historically large increase in risk-free rates that occurred in 2022. The second- and third-largest detractors from performance were ABS backed by auto loans and ABS backed by equipment, respectively. The price on both investments was negatively impacted by a combination of a historically large increase in risk-free rates and an increase in spreads.

Portfolio Activity⁷

The table below shows the portfolio's sector-level exposures of December 31, 2022 compared to September 30, 2022 and December 31, 2021:

Sector	% Portfolio 12/31/2022	% Portfolio 9/30/2022	% Portfolio 12/31/2021
ABS	63.4	66.3	57.7
Mortgage Backed (CMO) ⁸	5.3	5.2	7.4
Stripped Mortgage-backed	0.4	0.4	0.4
Corporate	6.2	5.8	4.2
CMBS ⁷	11.9	10.7	6.9
Mortgage Pass-through	2.1	2.0	0.1
U.S. Treasury	7.0	9.0	22.7
Cash and equivalents	3.7	0.6	0.6
Total	100.0%	100.0%	100.0%
Yield-to-worst ¹	6.14%	5.70%	1.42%
Effective Duration (years)	1.70	1.71	1.39
Average Life (years)	2.34	2.44	1.89

⁷ Portfolio composition will change due to ongoing management of the Fund.

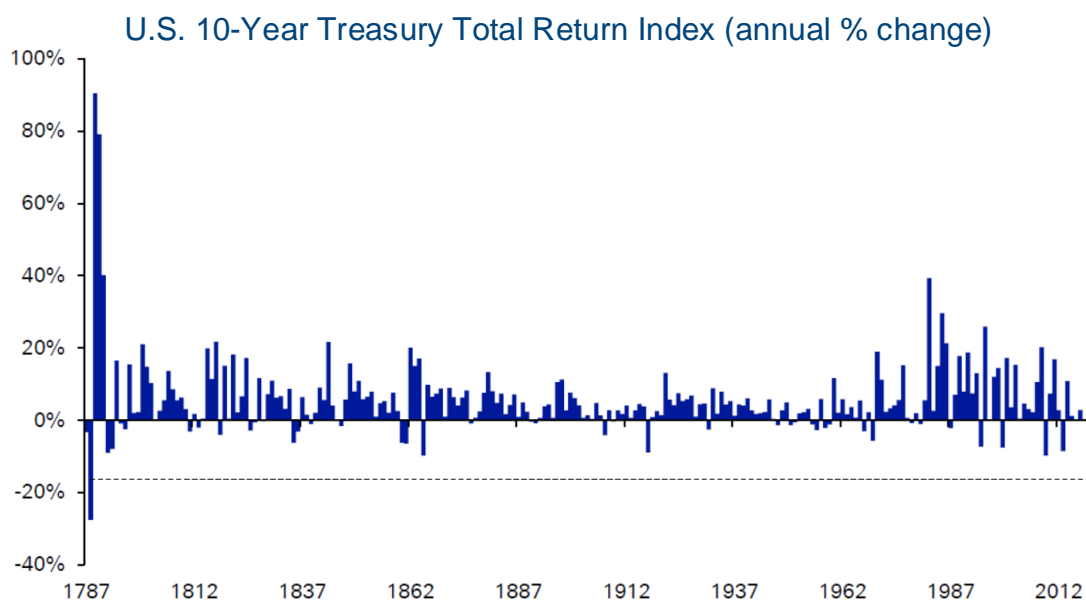
⁸ Collateralized mortgage obligations ("CMO") are mortgage-backed bonds that separate mortgage pools into different maturity classes. Commercial mortgage-backed securities ("CMBS") are securities backed by commercial mortgages rather than residential mortgages.

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As yields increased over the past year, we actively bought increasingly longer duration, high-quality bonds rated single-A or higher. The duration of these investments has been guided by our duration test, which seeks to identify the longest duration bonds that we expect will produce at least a breakeven return over a 12-month period if we assume that a bond's yield increases by 100 bps during those 12 months. Consistent with this test, during the fourth quarter 2022, we bought high-quality bonds including utility cost recovery bonds, asset-backed securities (ABS) backed by equipment, ABS backed by cellular towers, and non-agency commercial mortgage-backed securities that, on average, had a duration of 4.2 years and yield-to-worst of 5.63%.⁹ In addition, early in the fourth quarter, the Fund bought highly rated CLOs backed by middle market corporate loans at attractive prices from a forced seller of these bonds. The Fund did not make any credit investments during the quarter. This quarter's investments were funded with a combination of cash, proceeds from maturing investments and sales of Treasuries and existing short duration investments, the latter of which had an average duration of less than a year. While we steadily increased the Fund's duration during the year and invested along that path during the fourth quarter, we felt compelled to balance the desire to take advantage of an attractively priced market with the need to ensure the Fund had sufficient liquidity in a volatile market. As a result, the Fund's duration did not change meaningfully during the fourth quarter.

Market Commentary

Last year was the worst year for bonds in centuries! Using the 10-year Treasury as a proxy for the bond market, the chart below shows that 2022 was the worst year for bonds in over 230 years:



Source: GFD, Deutsche Bank (Deutsche Bank 2022 Review: A year for the history books, January 2023). As of 12/31/22. Global Financial Data (GFD) is a provider of financial data that extends beyond traditional data sources.

⁹ Based on prices as of 12/31/2022

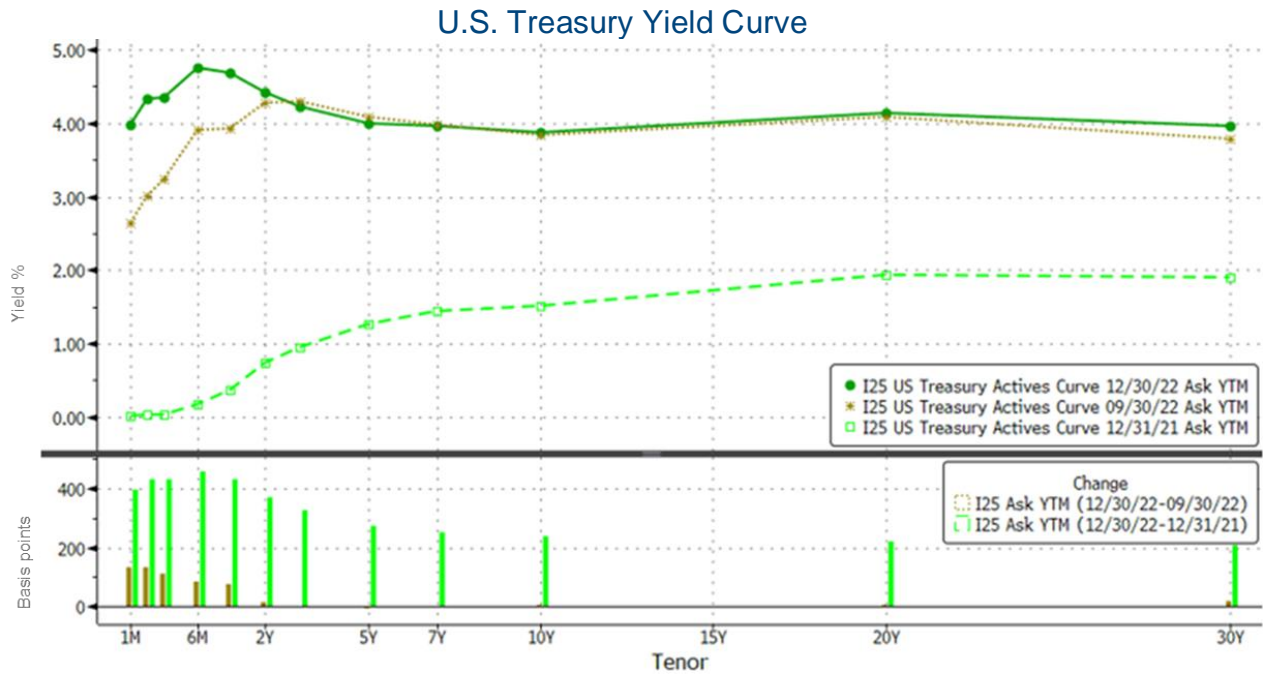
The driver of bonds' historically poor year in 2022 was inflation, or rather the effort to reduce inflation. As shown below, although inflation has abated recently, inflation remains higher than the Federal Reserve's target of 2%:

CPI Urban Consumers Less Food and Energy



Source: US Department of Labor. As of 11/30/2022. The Consumer Price Index, or CPI, reflects the average change over time in prices paid by urban consumers for a market basket of consumer goods and services. The Federal Reserve seeks to achieve an average of 2% inflation rate (<https://www.federalreserve.gov/newsevents/pressreleases/monetary20221102a.htm>). Dotted line reflects the most recent year/year change as of 11/30/2022 at 6%.

Accordingly, the Fed continued its assault on inflation during the fourth quarter, increasing the Fed Funds rate by 75 bps in November before easing off a bit and raising the rate by 50 bps in December. In total, the Fed raised the Fed Funds rate by 425 bps in 2022, the largest 12-month increase in 50 years. As a result, the yield curve shifted dramatically during the year, as shown below:



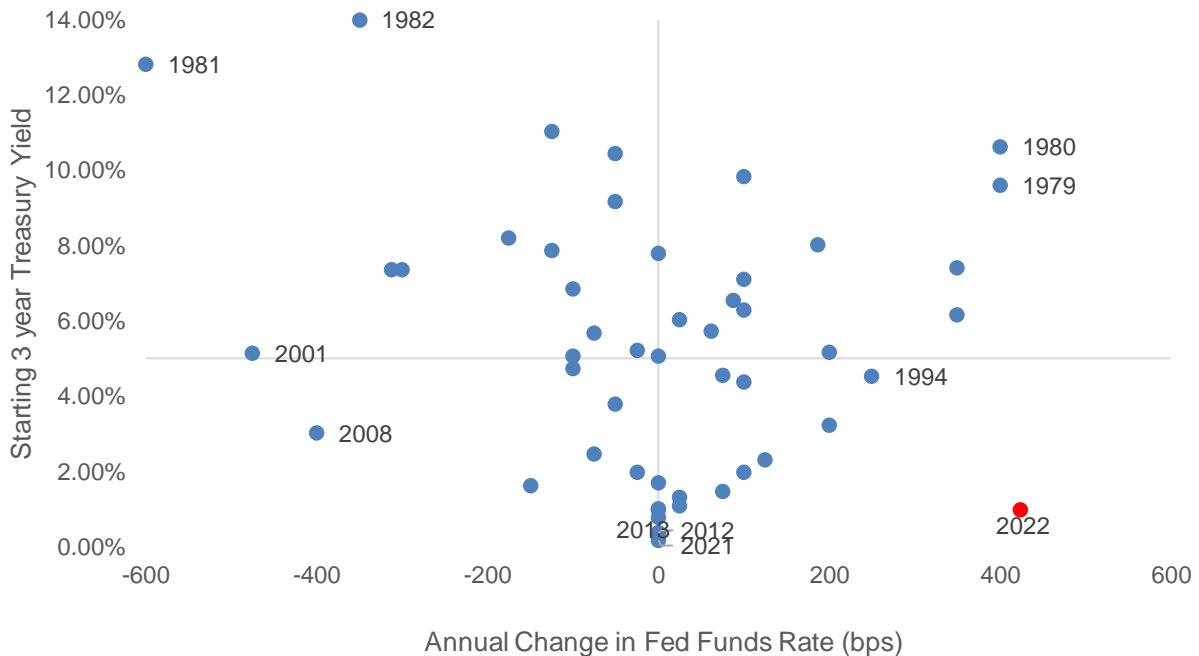
	Maturity							
	1Y	2Y	3Y	5Y	7Y	10Y	20Y	30Y
Q4 2022 change in yields (bps)	75	15	-6	-9	-2	5	6	19
YTD 2022 change in yields (bps)	431	369	327	274	253	237	221	206

Source: Bloomberg. As of 12/31/2022. Chart data as of the dates shown.

The 369-bps increase in 2-year Treasury yields was the largest annual change since the early 1980s, and the 237-bps in 10-year Treasury yields was the largest since 1787. However, the real culprit for the bond market's performance in 2022 was not the change in yields but bond market valuations.

The chart below compares annual changes in the Fed Funds rate to the yield on 3-year maturity Treasuries at the start of each year. 2022 stands out at the extreme lower-right.

Starting 3-Year Treasury Yield and Annual Change in Fed Funds Rate Since 1972

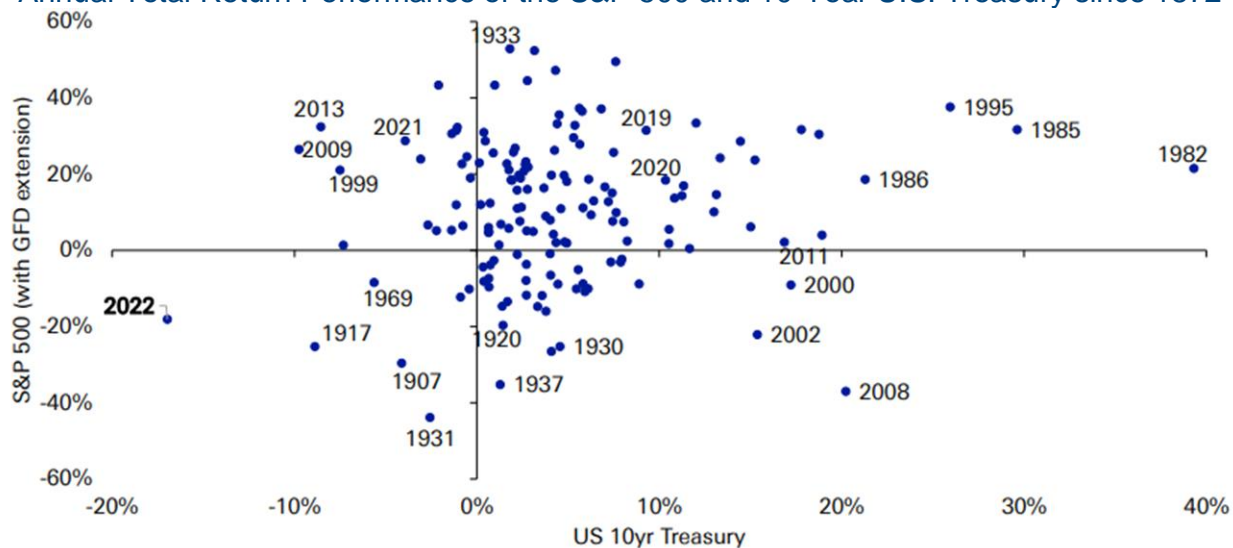


Source: Bloomberg. As of 12/31/2022.

In 1979 and 1980, the increase in the Fed Funds rate was very close to, though not quite as large as last year's increase. Yet 1979 and 1980 do not appear on lists of worst years for the bond market. In fact, bonds made money in 1979 and 1980 – at least in nominal terms – because yields were greater than 10% at the start of 1979 and 1980. Higher yields make bond prices less sensitive to changes in yield and also provide more income to offset lower prices. In comparison, risk-free rates were near historically low levels at the start of 2022. The 3-year Treasury yield was 0.73% at the start of 2022, leading to more sensitive bond prices and little income to offset price declines.

Thus, it was the incredibly expensive valuations (i.e., low yields) sparked by a historically large increase in risk-free rates that drove the bond market to its worst annual return in centuries. Moreover, because asset values in general are tied to interest rates, the pain in the bond market infected other asset classes too. We could elaborate on markets like cryptocurrency, non-fungible tokens and high yield that came into existence or reached baffling heights during the frothy period before 2022 then came crashing down last year when rates rose. However, we will suffice by presenting the following chart which shows that the impact of higher rates was broad with 2022 representing a rare instance of bonds and stocks both producing very poor returns. The impact of interest rates is not confined to bonds.

Annual Total Return Performance of the S&P 500 and 10-Year U.S. Treasury since 1872



Source: GFD, Deutsche Bank. As of 12/31/22. Global Financial Data (GFD) is a provider of financial data that extends beyond traditional data sources.

Some might say that the Fed was behind the curve in addressing inflation. Yet, the record shows that the market in general was behind the curve in anticipating the height and persistence of inflation. The reality is that it is hard to predict the macroeconomy and it's also hard to predict the direction of interest rates and the market with conviction. To underscore that point, we note a comment that Federal Reserve Chairman Jerome Powell made during the Q&A session following the Fed's rate hike on December 14. Powell said, "I don't think anyone knows whether we're going to have a recession or not, and if we do, whether it's a deep one or not. It's not knowable." (emphasis added).¹⁰ We agree that it's not knowable. Even if one makes a correct prediction once, how confident can one be in the ability to make correct predictions repeatedly and consistently?

When we invest, we try to be humble about what is and is not knowable. Valuation is clear; the future is not. We are absolute return and absolute value investors, not relative value investors. That's why we let absolute valuation – not our gut – serve as our guide. At the start of last year, we didn't know whether inflation would be persistent and we didn't know what the Fed would do. But it was clear to us that valuations were insanely expensive and we generally weren't getting paid to take duration risk or credit risk, which is why we tried to preserve capital by limiting the duration of the Fund and avoiding investments we believed were inappropriately priced.

Yet, even our conservative positioning was overwhelmed by the worst bond market in modern history and New Income returned -3.10% last year. Many investors know FPA New Income for its 37 consecutive calendar years with positive returns. That track record has long been a part of our marketing. Unfortunately, the end of a 40-year bull market for bonds and the worst bond market in centuries ended that streak. Let there be no doubt that we are disappointed that the Fund did not make money last year, not because the streak is over but because we do not like to lose money – ever. Nevertheless, we must recognize that last year FPA New Income did much better than the Bloomberg U.S. Aggregate 1-3-year Bond Index and much, much better than the overall Bloomberg U.S. Aggregate Bond Index. We must also recognize that New Income was one of the top-performing funds in its Morningstar bond category for 2022. Further, that performance placed New Income in the top quartile of its category over longer periods as well. New Income investors have made more money owning New Income over the last 10 years than they would have made if they owned the same bonds as those in the Bloomberg U.S. Aggregate Bond Index, and with a fraction of the volatility.

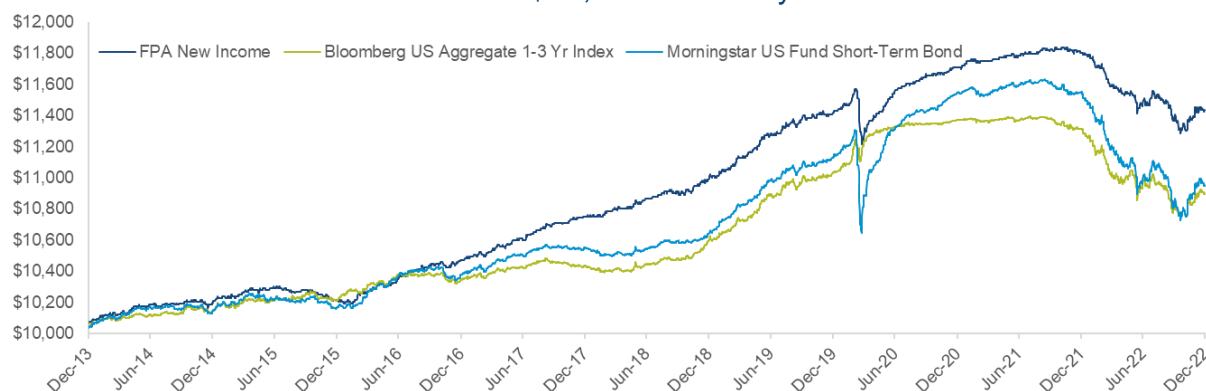
¹⁰ Powell press conference following FOMC announcement on 12-14-22
<https://www.federalreserve.gov/monetarypolicy/files/monetary20221214a1.pdf> .

As of Date: 12/31/22	QTD	YTD	1 Year	3 Years	5 Years	10 Years
FPA New Income, Inc.	0.60	-3.10	-3.10	0.05	1.24	1.35
Bloomberg U.S. Agg 1-3 Year Bond Index	0.90	-3.72	-3.72	-0.42	0.86	0.86
Bloomberg U.S. Agg Bond Index	1.87	-13.01	-13.01	-2.71	0.02	1.06
CPI + 100	0.71	7.48	7.48	5.95	4.80	3.60

Morningstar Short-Term Bond Category Percentile Rank – FPA New Income, Inc.	Top 9%	Top 25%	Top 25%	Top 23%
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Source: Morningstar Direct. As of 12/31/2022. Fund Inception is July 11, 1984. Morningstar Short-Term Bond Category (“Category”) Rankings are as of December 31, 2022 and are based on total returns. The Category returns for the periods noted through December 31, 2022 were: 1-year: -6.27%; 3-year: -0.27%. Time periods greater than one-year are annualized. As of December 31, 2022, there were the following number of funds in the Category: 1 year: 331; 3 year: 312. **Past performance is no guarantee, nor is it indicative, of future results.**

Growth of \$10,000 over ten years



1/1/2013-12/31/2022	Sharpe Ratio	Sortino Ratio	Max Drawdown
FPA New Income	0.39	0.50	-4.24%
Morningstar US Fund Short-Term Bond	0.08	0.11	-7.25%
Bloomberg U.S. 1-3 yr Aggregate Bond Index	0.04	0.06	-5.31%

Source: Morningstar Direct. As of 12/31/2022. FPNIX Inception is July 11, 1984.

To be clear, calendar-year returns are not the Fund’s focus. Rather, we seek positive rolling 12-month returns because we believe focusing only on calendar years is detrimental to long-term performance. While our long string of consecutive calendar-year returns distinguished us from the other fixed income managers in the short-term bond category, we contend what truly sets us apart is our investment approach. Unlike some other fixed income managers, we do not express views on the direction of interest rates or what central banks and politicians might do, and consequently, we do not speculate on the market moving up or down. Instead, we very simply seek investments that we believe offer sufficient return for the risks, both short-term mark-to-market risk and credit risk. In expensive markets, we seek to take on less risk, and in cheaper markets we are willing to take on more risk – because the assets pay us to do so. Much of our investment selection is guided by our aforementioned duration test, which seeks to identify the longest duration bonds that we believe will produce at least a breakeven return over 12 months if we assume that a bond’s yield will increase by 100 bps during that time period. We are transparent that our duration decisions are guided by this test. Our investors thus have visibility into the duration of our investments during various market environments: when rates decline, we will typically add less duration, and when rates rise, we will seek to add more duration, consistent with our duration test. In turn, our investors have visibility

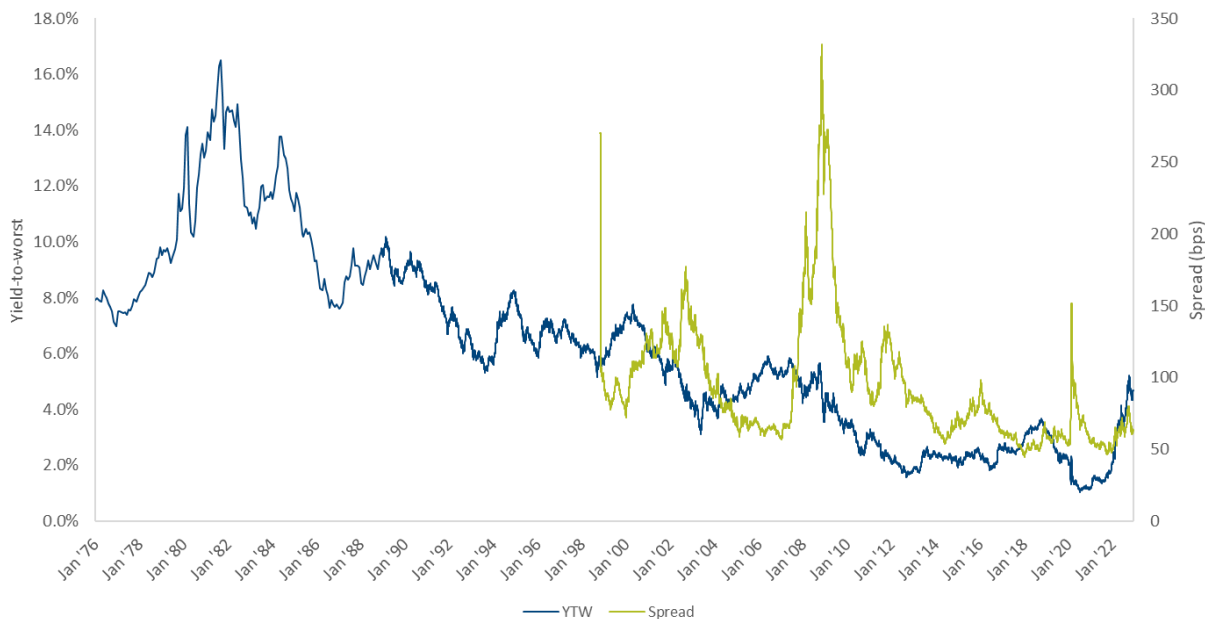
into how the Fund should perform during various market environments because of the transparency and consistent, disciplined application of our duration test. In other words, there should be no surprise about our return last year given that we solve for a 100-bps increase in yields and risk-free rates ended up increasing by 3-4 times that amount.

Inherent in our investment process is the recognition that we cannot time the market. As markets get cheaper, we add exposure. In the case of 2022, adding exposure meant adding duration as rates rose. We add exposure knowing that prices can continue to decline. If one is comfortable with the risk versus reward at the entry point, as we are, then a further decrease in price offers the opportunity to buy an even more attractive risk-versus-reward profile. In a declining market, this can mean that returns will get worse before they get better as we add risk that we expect will benefit our investors over the long term. To that end, a negative return in 2022 was essentially unavoidable if one follows a disciplined, consistent investment process that does not involve making bets on the direction of the market, which is what we do.

While we are disappointed that we lost money last year, we are thrilled that our disciplined execution of our absolute value, bottom-up investment approach – not a top-down macroeconomic bet – once again guided us through a turbulent market and left FPA New Income sitting among the best of its bond category peers. Therein lies the real story behind our 37 consecutive years of positive calendar year returns. Those 37 years are merely a reflection of our disciplined and consistent execution of our investment process and they speak to the low volatility performance that our approach engenders. Our process has repeatedly demonstrated its ability to preserve capital while generating market-beating returns over longer time horizons. A market unlike anything seen in history finally broke our streak. That means that we'll have to change our marketing. We will not change our approach.

Now, as we look ahead, we are excited about the opportunities in the market, especially because our investment process limited the Fund's drawdown and left us well-positioned to take advantage of these opportunities. The silver lining of dramatically higher yields and lower prices is, of course, a dramatically more attractive opportunity set. As a general statement, we believe that bonds are more attractive than they have been in at least a decade, as shown in the following chart measuring the yield and spread of the Bloomberg Aggregate Bond Index. The significant increase in yields in a short period of time spurred greater volatility in the market and drove spreads higher. As a result, yields on investment grade bonds are higher than they have been in a very long time.

Bloomberg U.S. Aggregate Bond Index

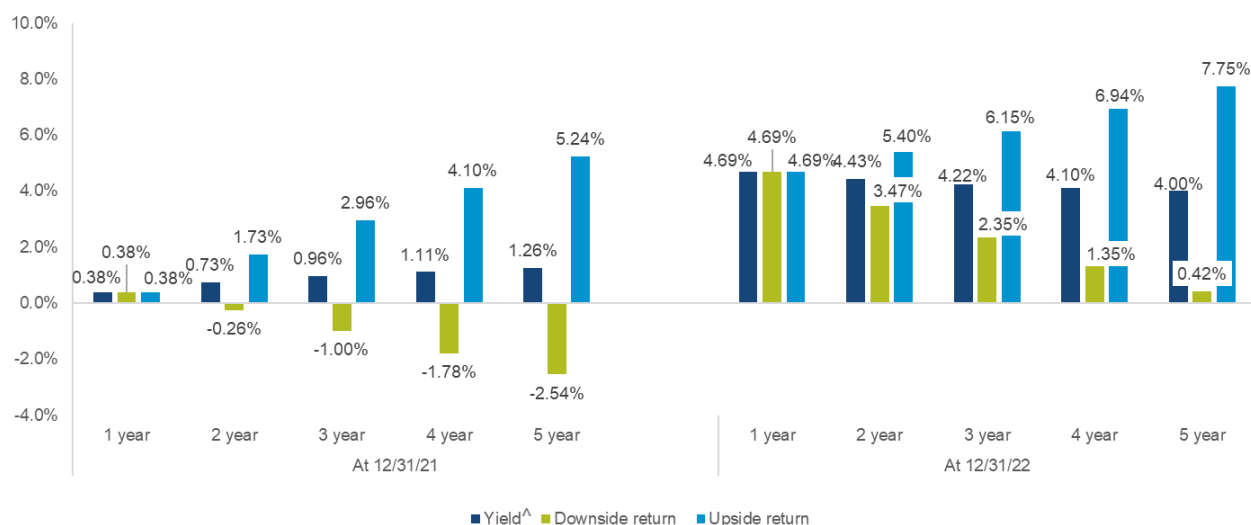


Source: Bloomberg. As of 12/31/2022. YTW is Yield-to-Worst. Spread reflects the quoted spread of a bond that is relative to the security off which it is priced, typically an on-the-run treasury.

We believe that buying high-quality longer duration bonds is one of the best investment opportunities available. As referenced earlier, rather than speculate on the direction of interest rates, we actively manage the Fund's duration based on an absolute return framework which seeks to provide short-term downside protection against an increase in yields, while seeking to improve long-term returns and, if yields decline, short-term returns. We believe that longer duration bonds (bonds maturing in 3-6 years) could produce a breakeven or positive return if their yield increases by 100 bps while allowing us to lock in higher yields for a longer period of time. As an added benefit, these longer duration bonds can produce higher returns in the short term if yields decline.

We illustrate below the improved upside-versus-downside return profile that today's market offers.

Hypothetical 12-month U.S. Treasury Returns



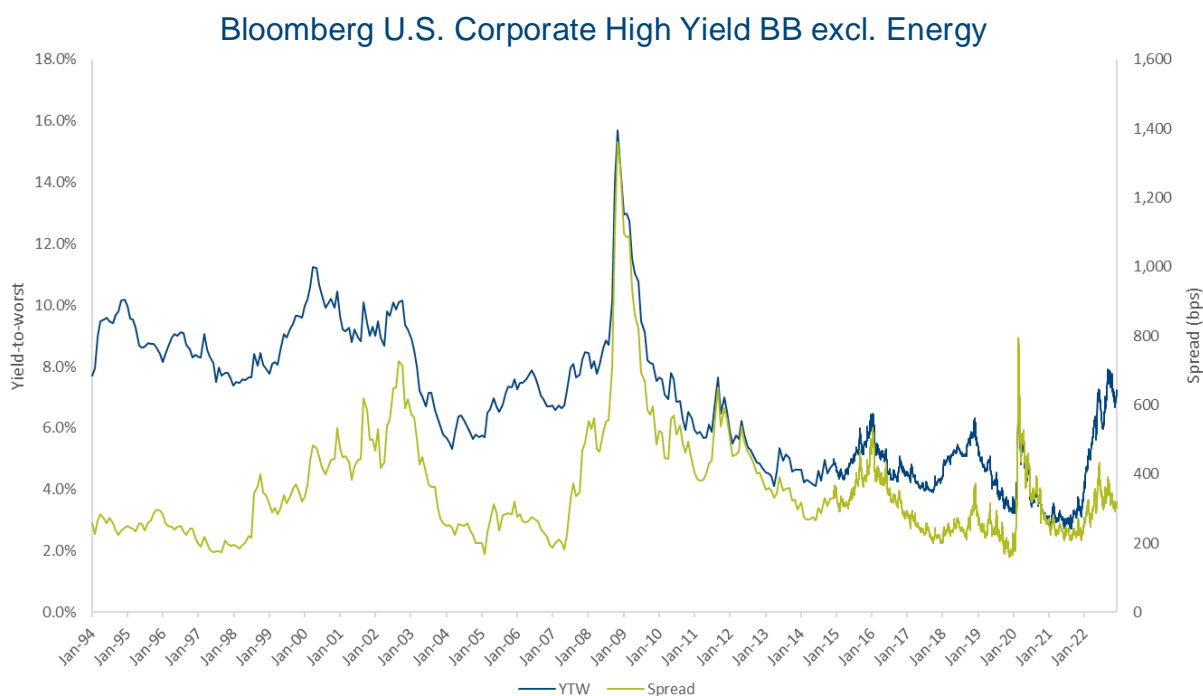
Source: Bloomberg. * Upside return estimates the 12-month total return assuming yields decline by 100 bps over 12 months. Downside return estimates the 12-month total return assuming yields increase by 100 bps over 12 months. Simulated 12-month total return scenario assuming 100 basis point gradual increase or decrease in interest rates over 12 months. **The hypothetical stress test data provided herein is for illustrative and informational purposes only, and is intended to demonstrate the mathematical impact of a change in interest rates on Treasury yields. No representation is being made that any account, product or strategy will or is likely to achieve profits, losses, or results similar to those shown. Hypothetical results do not reflect trading in actual accounts, and does not reflect the impact that economic, market or other factors may have on the management of the account. Hypothetical results have certain inherent limitations. There are frequently sharp differences between simulated results and the actual results subsequently achieved by any particular account, product or strategy.**

The bars represent the yield, downside and upside return of Treasury bonds of different maturities. The downside return is the 12-month total return assuming that yields increase by 100 bps. The upside return is the 12-month total return assuming that yields decline by 100 bps. As shown on the left, a year ago, only 1-2-year maturity bonds could be expected to breakeven if yields increased by 100 bps over 12 months. As a result, the portfolio had a duration of 1.4 years at the end of 2021. Notably, given low yields in 2021, realizing the upside return would in many instances necessitate bonds trading at negative yields.

In contrast, as shown on the right, a 5-year maturity Treasury bond purchased at a 4.00% yield could produce a positive 0.42% return if yields rise by 100 bps over the next 12 months. Moreover, investors can lock in a 4.00% yield for five years and potentially have a 7.75% return in the next 12 months if yields decline by 100 bps during that time. In short, adding duration in a higher yield environment allows us to significantly improve the Fund's long-term and near-term return potential while still preserving its ability to produce breakeven or positive returns if rates rise further, within reason.

Turning to credit, higher risk-free rates, heightened volatility and recession concerns (as suggested by an inverted yield curve) have led to higher yields and spreads on lower-rated debt, as shown by the following chart depicting the BB component of the high-yield index, excluding energy – an index we monitor to give us what we believe is a better indication of high-yield bond pricing because it excludes noise related to

changes in ratings composition found in the overall high-yield index over time and the more volatile energy sector.



Source: Bloomberg. As of 12/31/2022. YTW is Yield-to-Worst. Spread reflects the quoted spread of a bond that is relative to the security off which it is priced, typically an on-the-run treasury.

Overall, yields in credit have increased over the past 12 months but, particularly with the recent decline in spreads, the majority of the increase in yields over the past year is due to higher risk-free rates rather than spreads. When we evaluate individual potential credit investments, we often find that the incremental return over and above that available in high-quality bonds is not sufficient for the incremental credit risk associated with the credit investment. As such, we are hopeful that we will find more credit opportunities going forward, but we remain selective, proceeding only where we believe the yield and spread adequately compensate us for near-term mark-to-market risk and the long-term risk of permanent impairment of capital.

In summary, last year was the worst in our lifetimes. The Fund performed relatively well last year and has performed well over the long term too. We hope that investors found that their investment in the Fund has served them well. Though 2022 was not a success by our absolute return standards, we contend it was a resounding success for our absolute value investment philosophy and process. Personally speaking, the past 12 months made me more confident in our approach and our team. That, in combination with the opportunities we now see, led me to personally add to my investment in the Fund during the quarter.

Thank you for your confidence and continued support.

Abhijeet Patwardhan
Portfolio Manager
January 2023

Important Disclosures

This Commentary is for informational and discussion purposes only and does not constitute, and should not be construed as, an offer or solicitation for the purchase or sale of any securities, products or services discussed, and neither does it provide investment advice. Any such offer or solicitation shall only be made pursuant to the Fund's Prospectus, which supersedes the information contained herein in its entirety.

The views expressed herein and any forward-looking statements are as of the date of the 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. You should not construe the contents of this document as legal, tax, accounting, investment or other advice or recommendations.

Abhijeet Patwardhan has been portfolio manager for the Fund since November 2015. Thomas Atteberry managed/co-managed the Fund from November 2004 through June 2022. Effective July 1, 2022, Mr. Atteberry transitioned to a Senior Advisory role. There were no material changes to the investment process due to this transition.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities or sectors 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 or sector examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

The statements made herein may be forward-looking and/or based on current expectations, projections, and/or information currently available. Actual results may differ from those anticipated. The portfolio manager and/or FPA cannot assure future results and disclaims any obligation to update or alter any statistical data and/or references thereto, as well as any forward-looking statements, whether as a result of new information, future events, or otherwise. Such statements may or may not be accurate over the long-term.

Investments, including 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 Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; this may be enhanced when investing in emerging markets. 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. The securities of smaller, less well-known companies can be more volatile than those of larger companies.

The return of principal in a bond fund is not guaranteed. Bond funds have the same issuer, interest rate, inflation and credit risks that are associated with underlying bonds owned by the Fund. Lower rated bonds, convertible securities and other types of debt obligations involve greater risks than higher rated bonds.

Interest rate risk is the risk that when interest rates go up, the value of fixed income instruments, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principal due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a fixed income instrument, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults the fixed income instrument may lose some or all of its value.

Mortgage securities and collateralized mortgage obligations (CMOs) are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; such derivatives may increase volatility. Convertible securities are generally not investment grade and are subject to greater credit risk than higher-rated investments. High yield securities can be volatile and subject to much higher instances of default.

Collateralized debt obligations (“CDOs”), which include collateralized loan obligations (“CLOs”), collateralized bond obligations (“CBOs”), and other similarly structured securities, carry additional risks in addition to interest rate risk and default risk. This includes, but is not limited to: (i) distributions from the underlying collateral may not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; and (iii) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results. Investments in CDOs are also more difficult to value than other investments.

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.

The ratings agencies that provide ratings are Standard and Poor’s, Moody’s, and Fitch. Credit ratings range from AAA (highest) to D (lowest). Bonds rated BBB or above are considered investment grade. Credit ratings of BB and below are lower-rated securities (junk bonds). High-yielding, non-investment grade bonds (junk bonds) involve higher risks than investment grade bonds. Bonds with credit ratings of CCC or below have high default risk.

Please **refer to the Fund's Prospectus** for a complete overview of the primary risks associated with the Fund.

The Fund is not authorized for distribution unless preceded or accompanied by a current prospectus. The prospectus can be accessed at: <https://fpa.com/request-funds-literature>.

Index / Category Definitions

Comparison to any index is for illustrative purposes only and should not be relied upon as a fully accurate measure of comparison. The Fund will be less diversified than the indices noted herein and may hold non-index securities or securities that are not comparable to those contained in an index. Indices will hold positions that are not within the Fund’s investment strategy. Indices are unmanaged, do not reflect any commissions, fees or expenses which would be incurred by an investor purchasing the underlying securities. The Fund does not include outperformance of any index or benchmark in its investment objectives. Investors cannot invest directly in an index.

Bloomberg U.S. Aggregate Bond Index provides a measure of the performance of the U.S. investment grade bonds market, which includes investment grade U.S. Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1 year remaining in maturity. In addition, the securities must be denominated in U.S. dollars and must be fixed rate, nonconvertible, and taxable.

Bloomberg U.S. Aggregate 1-3 Year Bond Index provides a measure of the performance of the U.S. investment grade bonds market, which includes investment grade U.S. Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have a remaining maturity of 1 to 3 years. In addition, the securities must be denominated in U.S. dollars and must be fixed rate, nonconvertible, and taxable.

Bloomberg U.S. High Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Bloomberg U.S. High Yield BB ex Energy Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable BB-rated corporate bonds excluding energy sector. Bloomberg U.S. High Yield B ex Energy Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable B-rated corporate bonds excluding energy sector.

The **Consumer Price Index (CPI)** is an unmanaged index representing the rate of the inflation of U.S. consumer prices as determined by the U.S. Department of Labor Statistics. There can be no guarantee that

the CPI will reflect the exact level of inflation at any given time. This index reflects non-seasonally adjusted returns.

CPI + 100 bps is the measure of the CPI plus an additional 100 basis points.

Morningstar Short-term Bond Category portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and typically have durations of 1.0 to 3.5 years. These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations. Morningstar calculates monthly breakpoints using the effective duration of the Morningstar Core Bond Index in determining duration assignment. Short-term is defined as 25% to 75% of the three-year average effective duration of the Morningstar Core Bond Index. As of December 31, 2022, there were 597 funds in this category.

Standard & Poor's 500 Stock Index (S&P 500) includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

Other Definitions

Basis Point (bps) is equal to one hundredth of one percent, or 0.01%. 100 basis points = 1%.

Coupon or coupon payment is the annual interest rate paid on a bond, expressed as a percentage of the face value and paid from issue date until maturity.

Corporate holdings include bank debt, corporate bonds and common stock.

Credit Spread or Spread is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality

A discount margin to maturity is the average expected return of a floating-rate security (typically a bond) that's earned in addition to the index underlying, or reference rate of, the security. The size of the discount margin depends on the price of the floating- or variable-rate security.

Effective Duration (years) is the duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

Mark-to-market is a method of measuring the fair value of accounts that can fluctuate over time, such as assets and liabilities.

Maximum drawdown is the maximum observed loss from a peak to a trough of a portfolio, before a new peak is attained. Maximum drawdown is an indicator of downside risk over a specified time period.

The **nominal rate of return** is the amount of money generated by an investment before factoring in expenses such as taxes, investment fees, and inflation.

Nominal yield is the coupon rate on a bond.

A bond **premium** occurs when the price of the bond has increased in the secondary market. A bond might trade at a premium because its interest rate is higher than current rates in the market.

Real return is what is earned on an investment after accounting for taxes and inflation.

Real yield is the nominal yield of a bond minus the rate of inflation

Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession.

Repo (Repurchase Agreement) is a form of short-term borrowing for dealers in government securities.

The **risk-free rate** reflects the yield of the Treasury bond matching the investment's duration.

Sharpe Ratio measures risk-adjusted performance. The Sharpe ratio is calculated by subtracting the risk-free rate - such as that of the 10-year U.S. Treasury bond - from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns.

Sortino Ratio differentiates between good and bad volatility in the Sharpe ratio. This differentiation of upwards and downwards volatility allows the calculation to provide a risk-adjusted measure of a security or fund's performance without penalizing it for upward price changes.

Weighted Average Life (years) is the average length of time that each dollar of unpaid principal on a loan, a mortgage or an amortizing bond remains outstanding.

Yield to Maturity is the rate of return anticipated on a bond if held until the end of its lifetime. YTM is considered a long-term bond yield expressed as an annual rate. The YTM calculation takes into account the bond's current market price, par value, coupon interest rate and time to maturity. It is also assumed that all coupon payments are reinvested at the same rate as the bond's current yield.

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