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

This transcript must be read in conjunction with the corresponding webcast slides, posted on fpa.com. The webcast slide page numbers are referenced below. Please also reference the Important Disclosures at the end of this transcript and throughout and at the end of the webcast presentation.

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 July 25, 2019 can be accessed at: https://fpa.com/docs/default-source/funds/fpa-new-income/literature/fpa-new-income-prospectus_01-31-19_web-ready.pdf?sfvrsn=4. The prospectus for FPFIX dated April 30, 2019 can be accessed at: https://fpa.com/docs/default-source/funds/fpa-flexible-fixed-income-fund/literature/fpa-flexible-fixed-income-fund-prospectus_04-30-19_web-ready.pdf?sfvrsn=18. 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 Mike and I will be your event specialist today. All lines have been placed on mute to prevent any background noise. Please note that today's webcast is being recorded.

During the presentation, we will have a question and answer session. You can ask text questions at any time. Click the green Q&A icon on the lower left-hand corner of your screen, type your question in the open area and click Ask to submit. If you would like to view the presentation in a full-screen view, click the Full Screen button in the lower right-hand corner of your screen. Press the Escape key on your keyboard to return to your original view. For optimal viewing and participation, please disable your popup blockers.

And finally, should you need technical assistance, as a best practice we suggest you first refresh your browser. If that does not resolve the issue, please click on the Support option in 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: [Please reference slide 2] 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 Second Quarter 2019 Webcast. My name is Kristina Surkova and I am relationship manager for the Fund.

The audio, transcript and visual replay of today's webcast will be made available on our website FPA.com.

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.

(00:01:53)

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.

Now let's talk about what happened during the quarter. Treasury yields decline reflecting expectations of a weaker economic environment and Central Bank easing.

We continue to favor high-quality—those rated single A and above—structured product securities while being cautious towards credit-sensitive securities. Those are the ones rated BBB and below.

(00:02:30)

As part of today's agenda, Tom and Abhi will discuss the highlights for both funds, provide commentary on the markets, review performance and portfolio activity and then we will open it up to questions and answers. Tom, over to you now.

Thomas: [Please reference slide 3] Thank you, Kristina, and thank you, everyone, for joining us this afternoon. Let me start out by saying we have a new member of the team, Felix Moy. He joined us in May. He has about 16 years of experience. His first responsibilities are going to be transitioning over the trading of our corporates and bank debt from what has traditionally been done at the firm's equity trading desk; we'll be taking those on ourselves. And then after that he will then work with the rest of the analytical team and the portfolio managers and supporting us in all our trading activities.

[Please reference slide 4] Starting off with a look at the Fund highlights, the short-term goals, long-term goals and some of the guideline pieces we have, as you are all aware, the New Income Fund is trying to get an absolute positive return in a 12-month period, while the Flexible Fixed Income Fund is trying to do the same thing over a 36-month period.

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Long-term, New Income is trying to get CPI plus 100 basis points and Flexible Fixed Income is trying to get CPI plus 200 basis points. We are indifferent to benchmarks as we are only looking for securities that help us accomplish those two [goals].

The biggest difference between the two is that those things that are already BBB and below, the maximum allocation in New Income is 25%. Within the Flexible Fixed Income Fund, that allocation the maximum is 75%. Currently the Morningstar category for New Income Fund is the Short-Term Bond Fund category and for Flexible Fixed Income Fund, it is the Nontraditional Bond Fund category.

The best way to view these two is to think of them as the same process, the same people, the same or similar securities and really just a different allocation.

And then, finally, at the bottom end note, at the end of the quarter the Flexible Fixed Income Fund was a little over $100 million in size and had a little over $3 million of assets that have come from FPA employees.

[Please reference slide 5] Looking at some basic characteristics, the New Income Fund ended the quarter with a 2.63% yield-to-worst and a 1.69 effective duration. Not surprising that we continue to have a yield-to-worst greater than the indices in a much shorter effective duration, the end result being as we are less sensitive to changes in interest rates.

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The Flexible Fixed Income Fund did get itself finally fully invested during the second quarter. It has a 2.71% yield-to-worst and a 2.19 duration. While its yield-to-worst is not greater than the stated benchmark, it's very close to it but has much less of a duration number to it.

[Please reference slide 6] From a performance standpoint, a couple of highlights here. As the result of Fed Funds Rates increases over the last several years to a level that's greater than inflation, it's become easier for us to reach the [goal] we've been trying to reach long-term, CPI plus 100. It is something in the New Income Fund we've accomplished not only for the quarter and year-to-date but over the last year as well. Looking at the 3-year number, it's not quite there yet but it is definitely headed in that direction.

[Please reference slide 7] Just some quick comments. They're very quick because it relates to Flexible Fixed Income as I'd said. We've really got this portfolio fully invested during the second quarter of this year. So looking at year-to-date performance and even quarter-to-date performance it's nice, don't get us wrong, but it's really at this point not that significant given how new the portfolio is.

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[Please reference slide 8] I keep putting this slide in here just to remind people about how do we get to the return numbers we do, and it really is mostly driven by what's on the right-hand side, which is at maximum drawdown. We [seek to] protect on the downside. That's our primary objective we want to start with. And then if we can just participate when [interest] rates are declining and participate when [interest] rates are sort of unchanged, the end result is what you see on the left which is a total return that tends to be higher than the indexes. It has less of standard deviation or volatility in order to achieve that.

[Please reference slides 10-11] Moving on to spend some time talking about market commentary, I found this cartoon. And it best sums up year-to-date what's gone on. You can think of it in this term so then Q1, the car was put into the left-hand turn lane and in Q2 the U-turn was made. So I want to spend a little bit how has this impacted the markets, looking at some items to consider as we think about the fact we're going back the way we came.

[Please reference slide 12] The first thing to look at, this graph is trying to show you what's the probability that in July, which is July Fed Funds Rate, that meeting which is at the end of this month, what's the probability that either rates are hiked, which is the black line, no change at all which is the blue line, and then the red line is a cut.

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And thinking back about preparing for the U-turn, we got to the end of the year and the probability of a rate hike just sort of disappeared over about a 30-day period and was replaced by no change. And then if you look further to the right and you look at that red line starting right about the end of May, it shoots up rapidly and says, okay, the probability of a cut almost goes to 100%, where it is now. And that no change just completely disappears.

That dramatic change, there are a couple of things at play. One of the bigger ones was you had both the European Central Bank and the Japanese sitting down and talking about the fact that, okay, we need to have some quantitative easing and some easing of monetary policy, things are getting rough all based on the fact that the economy was continuing to slow, in combination with the fact that inflation fears or inflation concerns from central bankers had gone away. In fact, when you look at the targets they have for inflation, which are roughly 2%, the numbers they use and sort of the measures that they use say oh, is inflation at 2% was not there. It's less than that. So they felt very comfortable about, we're going to do more easing.

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[Please reference slide 13] This graph illustrates it in a little more detail. The red line and the green line sort of look at Japan and Europe and lo and behold, if you get above 50% on a probability, it's a way of telling you, yes, this is what's going to happen. And in the beginning of June the probability of a cut at the end of the year for those two central banks, one above 50% and sits somewhere in the 67-85%. The US had already gotten there; we had already come to the conclusion that rates were going to be cut by year end of this year. The main reason is we're sort of the outlier and as you look through the next set of graphs and comments, you will see some details as, okay, the US Central Bank was the outlier.

[Please reference slide 14] The biggest change during the second quarter, you look at the yield curve and what really was going on, the biggest change was occurring between the 1-year and the 5-year. That's the area where investors said they're going to express their view of what's the direction of the Fed Funds rate, and it sort of reflects that change that we've talked about in the curve. You've got much less at the short end and much less at the long end as far as change in the level of yields.

[Please reference slide 15] Thinking about it longer term, this graph looks at the 10-year Treasury in blue. It looks at the green line which is the 3-month Treasury Bill. What's the difference between those two? That's the red line, and we've gone back five years.

(00:10:53)

Starting in 2017, the Fed Funds Rate ran from basically 50 basis points to 2.5 and the 10-year went from something that looks like 2% to 3%.

But as we look to the right-hand side and we think about the last six months, the 3-month Treasury Bill hasn't moved a tremendous amount. Only at the very end has it started to turn down. But the 10-year Treasury went from 3% to 2%. And the main reason for that is one of inflation isn't seen as a problem that tends to be the driver of a long-term security like a 10-year Treasury and so investors are comfortable buying it, driving its price up and its yield down. But there are other things at play as well and as we move forward, we will look at those.

[Please reference slide 16] Getting a little more detail on this, this is a look at that same graph just over the last six months. And as we talked about in previous conference calls, once it turns negative, if it stays negative for somewhere in the 10 to 12 trading days, the chances of you going into a recession roughly a year later is fairly significant. So with this in mind, you can see where the Fed starts to think about the fact, well I don't want this thing to stay inverted for a long period of time and without inflation increasing [so] I need to change some other point on that yield curve, the only place they have left is to look at a 3-month Treasury Bill which rate is reflected back of what's a Fed Funds Rate.

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So if, although it's a 100% probability according to the market, if the Fed at the end of this month reduces the Fed Funds Rate by 25 basis points, you can sort of figure that that means the 3-month Treasury Bill goes from about a 2% yield it is today to 1.75%. And lo and behold this inversion will go away ever so slightly. It won't be great but it will at least be back to a positive slope again.

[Please reference slide 17] Well, what's one of the things that's probably driving them to do this is a look at growth and then a look at what you can sort of see in here looking at earnings. So each line represents a quarter S&P 500 total earnings. The green line was the first quarter. The blue line is the current quarter. The orange line is the third quarter. The red line is for the full year. And until you really look at the full year, the numbers are all negative at the far right-hand side of the graph. The thing that's of note, roughly nine months ago the world expected S&P 500 earnings for 2019 to be at somewhere between 11% and 12% over the previous year. They're now down to 3.7 and that line has sort of continued to tail off.

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So the Fed is thinking about the fact, well, if we lower the short-term rates or we make a positive slope to the yield curve, can that get earnings to turn up because we can get economic growth to turn up and that's probably something else that they tend to think about. But how is that manifesting itself other places other than the US?

[Please reference slide 18] The upper left-hand corner is a look at the Global Aggregate Index and the dollar amount of bonds in that index that have a negative yield. In 2016 that first spike up you see, just shy of $12 trillion, today it's a little over $13 trillion. Roughly a year ago it was $5 trillion. There's been a huge run-up in a very short period of time in negative-yielding securities, and that's not really the only place where you find them. When you dig in a little deeper, the lower right-hand corner tells you that, oh, BBB-rated Euro-denominated corporate bonds, about 12%

have a negative yield and that light blue line at the bottom tells you that some BBs as well have a negative yield.

[Please reference slide 19] Why is one of the reasons you're probably seeing that is that if you look at Euro government bond yields, the black line and the blue line are the 2-year and the 5-year in the Euro area and they've been negative for quite some time. Only in the last really six months, even less than that, three months, has the yellow line, which is the 10-year, gone negative as well. So if you're a European investor, you want to buy any kind of government bond with Euro pretty much they're all negative except for the four major ones—Spain, Portugal, Italy and Greece.

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Now interestingly, Greece, when I walked in here, had a yield on its 10-year Treasury of 1.97%. You can get a 2.06% [yield] if you buy the US Treasury. I'm not sure if one wants to lend Greece money at a lower rate than they want to lend it to the US.

[Please reference slide 20] So one of the distortions that we started to see that concern us is when you look at this graph what it's showing you is what is the percentage of developed countries' sovereign yields that yielded more than the Fed Funds Rate? We start in 2015 and it ends over here in the middle of 2019.

And when you look at 2015, you can go look in the UK, you can look in Europe, you can look in Japan, you can look in Australia, you can look in Canada and you could find bonds yielding more than Fed Funds Rate, and that held up for 2016 but it's sort of starting to diminish. By 2018, the only thing that was left was some bonds in Euro land. And now that's even gotten smaller and there's very little left in the US. So the Fed Funds Rate is the outlier. It's the high yield compared to everything else and there's probably [something] else that sort of leads you to that's not sustainable for a long period of time.

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[Please reference slide 21] So this is a background. This graph looks at two items. It looks at the US Aggregate Index. It takes the Treasury component and gives you a yield to maturity. That's the green line, so left-hand scale. The right-hand scale is the Euro Aggregate Bond Index Treasury component and it's on the right-hand side. Its yield is about 0.2% in total. If you look at this, the interesting thing that starts to come out is similar paths of late. They both tend to be rising at the same time; they both tend to be falling at the same time.

[Please reference slide 22] What really struck me is when I started looking through this was what if we did that same look at the two Aggregate Indices, but instead of looking at treasuries we'll look BBB bonds or BAA. These things have been flying in formation since 2016. Yes, the yield levels are different but they're both going up and they're both going down at pretty much the same time. The biggest difference is in Euro land that Aggregate Index, those BBBs or BAAs yield about 0.95% and in the US they still have a yield that looks a lot more like 3.5%.

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[Please reference slide 23] But fundamentally they're not necessarily the same securities. So the bar graphs at the top are just a look at what's the percentage of high grade bonds in either the US, Euro area, emerging markets or Japan that have leverage of greater than four times. And you look at 2014 and we've boxed off the Europe area I think it was 24%. That's when they went to a negative interest rate policy and within a couple of years the 24% went to 36% and it's pretty much stayed in that 36% range since, much higher than the US.

Well, what started also to happen when we went into this negative interest rate policy? Well, looking at the ten largest European insurers, their allocation to BBB went from about 24% at the beginning of 2012 to

43% at the end of 2018. That appears to us to look like a group because looking back at those European treasuries, sovereigns, at negative yields, they had to stretch for yield; they had to find it somewhere; they looked at Euro BBBs, BAAs. And what the end result was, is you see them drive down on yields there to where they're now 95 basis points today.

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[Please reference slide 24] The high yield market in Europe, however, is not immune to this either. It is possible in "high yield"—we'll put that in quotation marks—to have a negative yield. The good news is in this particular case it's minus 25 basis points which is better than buying a—in this case—would be a 3-year, some Euro sovereign but still it's minus 25. The particular company involved here, this is called Euro Group B.V., it's actually a packaging and container company in Europe and that is a 4-7/8 coupon. It is due in 2021 and it's a bullet. And if you wanted to go buy a couple three days ago and pay the ask price, your yield was minus 25 basis points. Oh, by the way, it's rated BB. They're probably happy if they could borrow money at that rate. I don't know if you'd want to be as happy if you're lending it to them at that level.

[Please reference slide 25] So looking at all this activity, it doesn't surprise us to see we're revisiting some other pros and cons and questions that we had in 2016 when we had the first sort of bout of a large amount of negative yield. Further, we're seeing again, a shift of where is money flowing. So at the top that's foreign purchases of US corporates, the black line this is the month number, whatever the number is for the month. The data is as of through May. The blue line is the rate of change over 12 months and you look on the far right-hand side of that, lo and behold, starting at the end of the yearish, so that period of time, that rate of change has started to accelerate up. The bottom is foreign purchases of US Treasury bonds. You get the same activity.

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So as we think forward, it's not going to be surprising to us if we find ourselves back in a situation, on a relative basis, US yields look more attractive than if you're in Europe or if you're in Japan. So the end result is you get an incremental dollar or an incremental euro or an incremental yen that shows up on our doorstep desperately trying to find yield.

[Please reference slide 26] A couple of comments to close up this section as it sort of relates more domestically you only get it in things that we notice and see. The first one deals with high yield. This is the Bloomberg Barclays Corporate High Yield Index. The blue line's the yield on CCCs, the green line is the B-rated, the red line's the BB-rated.

And during this period of time, you look towards the far right and you realize okay the slowing economy, the sluggish earnings we were showing you in the S&P 500 are manifesting themselves within the high yield market as well, because the B and the BB component are tending to continue to decline in yield as there's demand for those securities but the CCC is flat to slightly up; there's a much less demand for that. So there still is a concern that, okay, the CCC I'm not getting the growth I need to justify the fact this is a highly levered entity that may find itself in trouble in the near future.

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[Please reference slide 27] And then finally I wanted to spend a minute on thoughts that we have and relay them to you in sort of changes in some of the sector allocation within the high-quality component of the portfolio.

The top graph is a look at swap spreads for prime auto ABS, subprime auto ABS—those are the two light and dark blue lines; credit cards which is the green line; the gray line is equipment ABS; and then the red line is what's it says here is a seasoned 15-year 3% since 2013. That's the seasoning. It was issued in 2013 to 3%. It's a reasonable proxy for the pool holdings that we have in the portfolio today.

A couple of things about the graph at the top that stand out. If you look over 2015, those lines are all very far apart. There's a differentiation between okay the light blue line being subprime auto what you can get in spread above Treasury versus that dark blue line which is prime auto or credit cards which are greener, much less than you could get from owning a mortgage. But over time, as you work yourself across to 2018, those lines all start to converge on each other. The one big difference occurs at second half of last year where you see the mortgage line, the spread increases dramatically to a point where, actually at times, it's greater than the others. That has tended to go away as we got into the end of the year and the beginning of this year. And if you look of recent, those lines are starting to spread out just a little bit.

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So how did that change impact what we were doing? In the bottom is the allocation this portfolio had to auto (prime), auto (subprime), credit cards, mortgages, and equipment ABS.

And that line at the top, that lighter blue line at the top, that's subprime auto which, again, you were getting paid to spread before in 2015. It was an allocation; it was in the high teens.

But you notice in 2017 forward, allocation starts to decline because the lines above have all come together. In fact, if you look close enough it got to the point to where the difference between subprime and prime was almost negligible and that darker blue line at the bottom which is our prime allocation started to increase.

The biggest change you'll notice is when you see the spread widen out in mortgages, our allocation significantly changed from something that looked like 2-3% to something that looked like 14%.

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We continue to find the equipment ABS space; it's interesting and such, it's got a spread that's better than any of the other ABSs. It's not the greatest thing in the world but it's much better than those other alternatives.

Well, with that is a backup on a broader sense of what we've been doing in the portfolio, I want to turn it over to Abhi who is going to go into much more detail.

Abhijeet: [Please reference slide 28] Thank you, Tom. I'll start with a reminder of how we approach duration. We try to buy the longest bonds that we can find that we expect will have a positive or breakeven return over the course of 12 months if we assume that the yield on the bond increases by 100 basis points over those 12 months.

As an example, if we bought the 3-year Treasury today at a 1.8% yield and sold it a year later at a 2.8% yield, we would have a total return loss of approximately 11 basis points. That is not something that we would buy. However, we could buy a 2 3/4 year Treasury at a 1.8% yield and expect to break even over a 12-month period if rates rose by 100 basis points over those 12 months.

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There are two points here. First, our approach to duration tries to create an attractive risk/reward profile or upside versus downside. If rates end up rising, under normal circumstances we would expect the Fund to have a positive return or roughly breakeven return, all things being equal. Alternatively, if rates decline, the Fund has short-term return potential in excess of its yield-to-worst. This latter behavior is what we saw during this past quarter.

The second point is that our duration approach means that the duration of the bonds that we buy in any given period will adjust based on market prices. When rates are higher, we will try to buy longer duration bonds. When rates are lower, as they were this past quarter, we will try to buy shorter duration bonds.

With that background on our investment approach, here's some quick context on the market before we get into details on the portfolios.

There are two dominant themes in the market this past quarter. First, Treasury rates declined meaningfully during the quarter by about 50 basis points in the part of the Treasury curve that we are focused on, namely the two to three year part of the curve. And secondly, as Tom noted, high yielding credit markets broadly became more expensive. Those two themes will be reflected in the performance in portfolios of FPA New Income and FPA Flexible Fixed Income which we will review now.

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[Please reference slide 29] Let's start with New Income. The bottom right of this page shows a return for New Income for the quarter before fees. The three largest contributors to performance during the quarter starting in order with the largest where asset-backed security is backed by equipment, agency mortgage pools, and ABS backed by auto loans. Roughly 50-60% of the return on all three investments was driven by lower Treasury rates, with the rest of the return coming from coupon payments.

These three investments are among the longest duration holdings in our portfolio and demonstrate the benefit of our efforts to add as much duration as we can within the confines of our duration test. It's worth pointing out that these investments were not the best performers from a total return perspective but rather were the largest contributors to performance because they are each relatively large exposures in the portfolio.

Overall, our corporate investments positively contributed to performance during the quarter, though our corporate bonds specifically detracted from performance.

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This performance was due to an investment in an energy-related company that detracted from performance as a result of a price decline associated with its ongoing restructuring process.

As we commented last quarter, we engaged with the various stakeholders and are actively involved in the restructuring process. In fact, we will reserve further comment for a future date. There were no other meaningful detractors from performance.

[Please reference slide 30] Consistent with what we discussed earlier, lower rates meant that the duration of our high-quality investments, defined as investments rated A or higher, decreased. The high-quality investments we made were largely in agency mortgages, asset-backed securities and commercial mortgage-backed securities which, on average, had a duration of 2.6 years versus a duration of three years on our high-quality investments last quarter. Adding investments with a 2.6-year duration, all things being equal, would extend the duration of our portfolio.

Having said that, we did not see a large opportunity to buy attractively-priced high-quality investments. As a result the portfolio's cash grew from about 6% to 8%. That, combined with the aging of the existing holdings, led to the duration on high-quality bonds shortening slightly is shown by the green bars on the right.

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[Please reference slide 31] We commented earlier that credit markets are expensive. The dark blue line shows our credit exposure over time, defined as investments rated BBB or lower. We were able to add to a few existing investments at attractive prices during the quarter but overall the credit exposure decreased from approximately 6.5% of the portfolio to 5% of the portfolio.

[Please reference slide 32] Overall, the quality of the portfolio is higher quality today than it has been over the past several quarters which, when we step back, we think makes sense given how expensive the market is as measured by yields and spreads on risk-bearing assets.

[Please reference slide 33] The two lines at the bottom of this page show the change in yields in duration from quarter-to-quarter. The duration is unchanged while the yields is lower consistent with lower overall market yields.

As I referenced earlier, while we and our investors have a lower yielding portfolio today than we had a few months ago, the lower yield going forward is offset by the gains that we had in the Fund over this past quarter. In other words, because market yields declined, the total return this past quarter was higher than expected. For long-term investors these things should even out, all things being equal. If nothing changes going forward, the math says that investors should expect a return over a multi-quarter period of the yield-to-worst that prevailed at the time that they made their investment in the Fund.

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It’s also worth noting that we’re not relative value types but we still have maintained an attractive yield profile that’s better than the one-to-three year Aggregate Bond Index.[1] And, in fact, we've maintained our relative advantage to that index despite the lower yield environment.

[Please reference slide 34] This pie chart shows the portfolio broken down by investment idea which is how we think about the portfolio on a day-to-day basis. Each slice represents an idea that is greater than 4% of the portfolio while the other slice captures any idea that is individually less than 4% of the portfolio.

Versus last quarter, there are no meaningful changes. There are a few ideas that are lower by a percentage point or less which represents the impact of the amortization of the existing investments, in some cases partially offset by new investments in that idea.

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Equipment ABS grew by a couple of percentage points. This was an area of significant investment during the quarter in line with Tom's earlier comments about relative valuations and structural product.

[Please reference slide 35] Finally, this slide shows the hypothetical portfolio total return before fees over the course of 12 months based on different assumptions about changes in yields [and assuming the hypothetical portfolio holdings remain static over the 12 months and zero

[1] Please reference slide 5 in the 2Q 2019 FPA New Income Inc. and FPA Flexible Fixed Income webcast presentation.

reinvestment rate]. For example, the blue bar above 100 on the X-axis shows the income [generated] that is expected to return approximately 1.7% before fees over 12 months if rates were to rise by 100 basis points over the next 12-month period. The green bar shows the same data point for [a] portfolio a year ago and the red bar shows a portfolio as of two years ago.

The takeaway here is that today's portfolio still has an attractive upside versus downside despite the lower yield. The far right shows that [a] portfolio should be able to withstand a greater than 200 basis point increase in yield and produce a positive return before fees.

The far left shows various declining interest rate scenarios would produce a higher returning portfolio than two years ago though, because of lower yields, it is less attractive than one year ago.

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[Please reference slide 38] Now on to Flexible Fixed Income. Let's begin with performance. The bottom right of this slide shows the return before fees. Please keep in mind that these numbers are directionally correct but because of rounding may be off 5 basis points.

The three largest contributors to performance were agency mortgage pools, asset-backed securities backed by equipment, and non-agency commercial mortgage-backed securities. In all three cases, 60-65% of the return was driven by price appreciation due to lower Treasury yields with the rest of the return coming from coupon payments. These investments were not the largest total returns in the portfolio but were the largest contributors to overall performance because of the combination of total return in exposure size.

From a sector standpoint, there were no detractors from performance. However, within our corporate holdings, our corporate bond investments detracted from performance due to the same investment in the aforementioned energy-related company. For similar reasons discussed earlier, we will have more to say on this at a future date.

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[Please reference slide 41] These two pie charts show the Flexible Fixed Income portfolio broken down by investment idea. Each slice represents anything bigger than 4% of the portfolio. Recall that Flexible Fixed Income was launched at the end of 2018. As of the end of the first quarter, the portfolio was still ramping up as reflected by the 25% cash holding on the left chart.

Comparing these two pie charts, there are large exposure changes from quarter-to-quarter. Much of the change reflects a continued ramp up of the portfolio, the deployment of the 25% cash balance from last quarter, and the investment of inflows over the course of this past quarter. The portfolio's Cash in equivalents is now at 6%.

For color on how we deploy capital, in high-quality bonds our investments were focused on agency mortgages, ABS and non-agency CMBS that, all things being equal, extend the portfolio's duration subject to the limits of our duration test. The average duration of these investments was approximately 2.7 years versus 3 years for the same data point last quarter.

Elsewhere in high-quality bonds, we bought agency CMBS, collateralized loan obligations, bonds backed by mortgage servicing rights, and bonds backed by reverse mortgage advances, all of which don't necessarily add duration but have an attractive return profile.

(00:36:00)

As a reminder, Flexible Fixed Income has much more credit capacity than FPA New Income with up to 75% of its portfolio available to invest in credit versus only 25% for FPA New Income. With much greater credit capacity in a different return mandate, we found attractive investments for Flexible Fixed Income that are good uses of Flexible Fixed Income's credit capacity.

[Please reference slide 39] Given the expensive market conditions, these investments are typically secured and/or have low loan-to-values to create an attractive risk versus reward profile. In this past quarter, that meant investments in bank debt, debtor in possession loans, cell tower asset-backed securities, and specific high-yield bond situations. In total, the credit exposure grew from approximately 6-7% as shown on the bottom of this slide.

[Please reference slide 40] Focusing on the last few lines of this slide which compares a portfolio metrics quarter-over-quarter, the net impact is that the portfolio's cash position came down significantly and the yield declined by about 20 basis points less than what might have been expected given the overall change in the rate environment. Moreover, the duration increased by about a third every year.

(00:37:15)

That concludes our prepared remarks and we can move on to Q&A.

Kristina: [Please reference slide 42] Thank you to those of you who have submitted questions in advance. We received a number of questions regarding where the team finds opportunities, which areas we are avoiding, as well as questions about interest rate environment and inverted yield curve. Those have been addressed during the prepared remarks. If you need additional clarification, please submit your question now or contact us after the webcast at crm@fpa.com.

They are going to briefly pause to gather any questions.

There are no questions at this time. Please feel free to submit your questions after the webcast. We thank you for listening to FPA New Income and FPA Flexible Fixed Income Second Quarter 2019 Webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: [Please reference slides 43-46] 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 this website for additional information on the Fund such as complete portfolio holdings, historical returns and after-tax returns.

(00:39:02)

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

Please visit FPA.com for future webcast information, including replays. We will post the date and time of the prospective calls at/towards/to the end of each current quarter and expect the calls to be held three to four weeks following each quarter end.

If you did not receive an invitation via email for today's webcast and would like to receive them, please email us at crm@fpa.com.

We hope that our quarterly commentaries, webcasts and special commentaries will continue to keep you appropriately informed on the strategy.

We do want to make sure you understand that the views expressed on this call are as of today and are subject to change based on market and other conditions. These views may differ from other portfolio managers and analysts of the firm as a whole and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

Any mention of individual securities or sectors should not be construed as a recommendation to purchase or sell such securities. **Past performance is not a guarantee of future results.**

Any statistics have been obtained from sources believed to be reliable but their accuracy and completeness cannot be guaranteed.

You should consider [each] the Fund's investment objectives, risks and charges and expenses carefully before you invest. This prospectus [for each Fund] details the [relevant] Fund's objective and policies, charges and other matters of interest to the 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.

FPA funds are offered by UMB Distribution Services LLC.

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

(00:41:08)

[END FILE]

FPNIX or FPFIX are not authorized for distribution unless preceded or accompanied by a current prospectus.

The current prospectus for FPNIX can be accessed at: https://fpa.com/docs/default-source/funds/fpa-new-income/literature/fpa-new-income-prospectus_01-31-19_web-ready.pdf?sfvrsn=4.

The current prospectus for FPFIX can be accessed at: https://fpa.com/docs/default-source/funds/fpa-flexible-fixed-income-fund/literature/fpa-flexible-fixed-income-fund-prospectus_04-30-19_web-ready.pdf?sfvrsn=18.

In addition, the most current prospectus can always be found at www.fpa.com.