

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

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 April 30, 2024 can be accessed at: <https://fpa.com/request-funds-literature>. The prospectus for FPFIX dated April 30, 2024 can be accessed at: <https://fpa.com/request-funds-literature>. The most current prospectus can always be obtained by visiting the website at 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 Sara and I will be your event specialist. Please note that today's webcast is being recorded.

[Please reference slide 1] During the presentation, we will have a question and answer session. You can ask text questions at any time by locating the Q&A box on the left side of your screen, type your question,

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

and click Enter to submit. If you are experiencing technical issues, as a best practice, we suggest you first refresh your browser.

It is now my pleasure to turn today's program over to Kristina Surkova. Kristina, the floor is yours.

Kristina: Thank you. Good afternoon and thank you for joining us today. We would like to welcome you to FPA New Income and FPA Flexible Fixed Income Fund First Quarter 2024 Webcast. My name is Kristina Surkova and I am relationship manager for the funds.

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

In just a moment, you will hear from portfolio manager Abhi Patwardhan and members of the Fixed Income investment team. Abhi Patwardhan is a partner at FPA and has been with the firm since 2010. He has been a portfolio manager for FPA New Income since November 2015 and has served as a portfolio manager for FPA Flexible Fixed Income Fund since its inception in December 2018.

Before we move to the webcast, we wanted to bring to your attention the upcoming Investor Day in Chicago on May 21st and 22nd. If you are on our distribution list, you should have received a formal invitation in March,

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

with a reminder email that went out a couple of days ago. If you did not receive this, please check out website for details regarding registration, or reach out to crm@fpa.com with any questions.

(00:02:07)

As part of today's agenda, Abhi will discuss the highlights for both funds, provide commentary on the market, review performance and portfolio activity, and then open it up to question and answers. Over to you, Abhi.

Abhijeet: [Please reference slide 6] Thank you, Kristina. Hello and thank you for your time today. We'll start with what has become our usual start to these presentations, which is to remind people about how we approach fixed income investing. It's become particularly relevant over the past couple of years to explain our approach, given that there has been so much focus on the macroeconomic environment and trying to predict where rates are going to go. So here we go.

[We content that] we manage fixed income differently than most other fixed income managers because we are not macro investors. We do not make bets on the direction of interest rates or other markets, and we are not relative value or relative return investors, so we are not trying to outperform an index. We are instead absolute return- and absolute value-

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

oriented, which means that we only want to own bonds that we believe are compensating us for the risks involved in an investment on an absolute value, not relative value, basis.

The emphasis on absolute return and absolute value means that our portfolios can look different from what other fixed income indices or funds may own, and it also means that our portfolios can change their complexion over time based on how the market changes. Said another way, we will change the portfolio in response to changes in market prices, not in anticipation of changes in market prices.

Unlike a fund that tracks an index, we have no interest in owning all of the market's risks all of the time. Rather, we only want to own some of the market's risks some of the time, and only when the price is right.

(00:04:01)

With that background, the left-hand column describes FPA New Income. In the short term, New Income seeks positive absolute returns over rolling 12-month periods, and in the long term seeks positive real returns of CPI plus 100 basis points over rolling 5-year periods. FPA New Income does not track an index and is largely an investment grade or a high-quality bond fund which has to have at least 75% of its assets in investments rated

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

single-A or higher and can, but does not have to, have 0% to 25% of its portfolio in investments rated BBB or lower. We refer to these BBB or lower holdings as credit.¹

The amount of credit that we own is purely a function of the individual investment opportunities that we see. As we'll show and discuss later, because of pricing in the market for lower-rated debt, these days we only have 10% of the portfolio in credit.

Lastly, New Income is a short-term bond fund. This fund does not use derivatives to add or subtract exposure, and does not use leverage.

On the right is FPA Flexible Fixed Income. This fund is managed with the same investment philosophy as New Income. The key distinction is that Flexible Fixed Income can, but does not have to, take on more credit exposure. This fund can have up to 75% of its assets in investments rated BBB or lower, and must have at least 25% of its assets in investments rated single-A or higher. This fund currently only has 20% of its portfolio in credit.

Flexible Fixed Income's higher credit capacity is in service of a higher long-term return objective of CPI plus 200 basis points over rolling 5-year

¹ Past performance is not indicative, nor is it a guarantee, of future results. As with any actively managed fund, portfolio holdings will change overtime and current holdings may be different than on March 31, 2024. There can be no assurance that the Funds will achieve their respective investment objectives.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

periods. To accommodate potentially greater credit exposure, in the short term, Flexible Fixed Income seeks positive absolute returns over rolling 3-year periods.

(00:06:00)

[Please reference slide 7] As shown here at the top, as of March 31, FPA New Income had a 5.78% yield-to-worst and 3 year duration, offering more yield with less duration risk than the Aggregate Bond Index, and more yield and more duration than the 1-3 Year Aggregate Bond Index. To take advantage of higher interest rates over the past couple of years, we have been purposely extending the duration of New Income. We'll talk about that more in a few minutes.

On the bottom of this slide, FPA Flexible Fixed Income had a yield-to-worst of 6.49% and duration of 3 years, offering more yield with less duration than the Universal Index.²

[Please reference slide 8] Thematically, nothing has really changed for us since the end of 2023. Rates are still at 10-15 year highs and spreads decreased during the quarter. We still see an attractive opportunity to buy

² Past performance is not indicative, nor is a guarantee, of future results.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

high-quality, longer-duration bonds because we think these bonds not only offer an attractive long-term return on an absolute basis, but they also improve the funds' short-term upside versus downside return profile.

On the other hand, we still do not generally think that the market for lower-rated debt, including high yield debt, is offering enough compensation for the risk so we have not been investing much there. As we'll show later, the credit exposure in New Income is still low on an absolute basis and low in comparison to its peers, while the credit exposure in Flexible Fixed Income has decreased.

[Please reference slide 10] As has been the case for the past couple of years, the battle to tame inflation has been driving the market. As shown here, progress toward reaching the Fed's 2% inflation goal may have stalled. By some of the measures, inflation may have increased recently.³

[Please reference slide 11] As a consequence, the market reset its expectations for the Fed funds rate. As shown here, at the end of 2023, the market expected the Fed to cut rates approximately six times by the end of 2024. Over the past four months, that has now changed to one to two cuts.

³ Source: Deutsche Bank, "What keeps us awake at night?", April 29, 2024.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

(00:08:10)

[Please reference slide 12] The pivot to expecting fewer rate cuts led to an increase in Treasury yields during the quarter. Risk-free rates were 25 to 40 basis points higher during the [first] quarter [of 2024]. In the month of April [2024], rates were another 20 to 50 basis points higher.

[Please reference slide 13] The swings in rates over the past six months highlight why we don't try to predict the direction of interest rates. It's too hard, especially because the macroeconomic data points are imprecise and measure the state of the economy on a lagged basis. That leads to the dynamics seen here where the market has had a hard time forecasting the path of interest rates. In this current interest rate cycle, the market has consistently forecasted that rates will decline when, in reality, rates actually ended up being higher.

We think that trying to predict the future and betting on it is a tough way to make money and, importantly, is a tough way to consistently make money. It's short term-oriented and speculative, and creates [uncertainty when seeking] attractive long-term returns.

We focus instead on long-term returns using current prices as our guide. We define price as the combination of factors that could affect the

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

return of, and return on, our capital including, among other things, dollar price, coupon, spread, maturity, call protection, loan-to-value, and structure.

[Please reference slide 14] With that in mind, here's what we see. This chart shows yields on 2-, 3- and 5-year Treasury bonds. As shown on the right, yields remain at 10- to 15-year highs.

[Please reference slide 15] Carrying that over to the investment grade bond market, this chart shows the yield and spread on the Aggregate Bond Index. The dark blue line shows that yields on longer-duration investment grade bonds are still at 10- to 15-year highs, but spreads continued to decrease during the quarter. Spreads on this index are now at the first percentile, meaning they are extremely low.

(00:10:11)

Notwithstanding the low spreads of these days, higher yields over the past couple of years have created what we believe is an attractive opportunity to buy longer-duration, high-quality bonds. We don't know how long yields will stay at today's levels, and we think that our investors will be better off in the long-term earning today's yields for multiple years.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

As such, we want to lock in today's yields for as long as possible. But, at the same time, we want to be thoughtful about limiting the short-term mark-to-market risk associated with increases in interest rates.

[Please reference slide 16] To manage this short-term mark-to-market risk, we seek bonds that we believe offer sufficient compensation for the duration. We do this using our duration test, which [helps us identify] the longest bond that we expect will produce at least a breakeven return over 12 months if we assume that a bond's yield will increase by 100 basis points over those 12 months.

The chart on the right illustrates this analysis. The dark blue bars represent the Treasury yield curve as of the end of March. The green bars show the result of our 100 basis point duration test.

As an example, a 5-year Treasury purchased at a 4.21% yield would return 0.64% over 12 months if the yield increased by 100 basis points from 4.21% to 5.21%. Because it produces a positive total return in that scenario, the 5-year Treasury would be a candidate for our portfolio, whereas one step to the right, the 7-year Treasury would not be a candidate for our portfolio because the green bar shows that our test would result in a 12-month total return loss.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

We seek to push to the boundaries of this test when buying duration. Why? Well, we can see here that this shorter duration—that the shorter-duration bonds would produce higher 12-month returns if rates rise. However, shorter-duration bonds have less potential return if rates decrease.

(00:12:11)

The light blue bars show the 12-month total return if rates decrease by 100 basis points. As shown here, the 5-year Treasury offers almost an 8% total return if rates decrease in comparison to only a 5.6% return for the 2-year Treasury, for example.

By way of comparison, at the end of 2021, shown on the left, rates were near historically low levels. The green bars show that only 1- to 2-year maturity Treasuries would pass our breakeven duration test, and longer-duration bonds had an unappealing upside versus downside, lacking the favorable asymmetry that we see today. As such, we had a much shorter duration at the end of 2021.

[Please reference slide 17] For over two years now, we have been extending the duration of both funds using our duration test. As shown here, New Income's duration increased from 1.4 years at the end of 2021 to 3

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

years at the end of March [2024]. In comparison, despite the fact that rates went from historically low levels to among the highest in over a decade, the average short-term bond fund has not meaningfully changed its duration during this period. Similarly, Flexible Fixed Income's duration has increased from less than a year at the end of 2021 to 3 years at the end of March [2024].

[Please reference slide 18] Now, if one knew that rates were going to rise over the next 12 months, then they should consider owning cash. Alternatively, if one knew that rates were going to fall, then one should consider owning really long-duration bonds. We [believe we] are one of the few fixed income managers who is willing to admit that we don't know where rates will go. Acknowledging our inability to predict the future focuses us on long-term returns and balancing short-term upside versus downside.

(00:14:05)

We believe our investment approach does a good job of directing us toward bonds that lock in today's yield for the long term and protect capital to some degree against rising rates in the short term, while at the same time

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

offering 80% of the short-term upside that the Aggregate Bond Index offers in a declining interest rate environment.⁴

We've seen all of that play out over the last six months. At the end of last year, when rates rallied significantly, our funds participated in much of the upside of the Aggregate and Universal Bond indices. In the process, our funds outperformed their relevant indices in 2023.

Since the turn of the year, as rates have increased, our funds have produced a positive return year-to-date, while the Aggregate and Universal Bond indices nurse year-to-date losses.

The green line here shows that our active management of New Income over the past 10 years has produced a greater return for our investors than they would have achieved if they had owned the average short-term bond fund, the Short-Term Aggregate Bond Index, or even the broader Aggregate Bond Index, and that has happened with generally smaller drawdowns too.

[Please reference slide 19] Similarly, the green line here shows that Flexible Fixed Income investors have had a similar experience since

⁴ Please reference slide 7. Past performance is not indicative, nor is it a guarantee, of future results. Actual results may differ from those anticipated. 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.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

inception, having made more money than the alternatives shown here, and with a smoother ride along the way.

[Please reference slide 20] Turning to credit markets, this chart shows the yield and spread on the BB component of the High Yield Index excluding energy. We don't invest based on this chart, but we think this chart is a decent indicator of what we're generally seeing in the market for lower-rated debt.

The blue line shows that, like much of the rest of the bond market, yields are at 10- to 15-year highs but the spread—shown by the green line—is statistically low, residing at the 16th percentile, where a smaller percentile is more expensive.

(00:16:03)

Moreover, charts like this don't adjust for the true quality of the debt being measured. For example, protections for bondholders are not measured here. Leverage is not measured here. We would argue that on a like-for-like basis, the market is even more expensive than this chart would suggest.

[Please reference slide 21] This chart shows the spread on high yield bonds less the spread on investment grade bonds. These lines measure

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

the extra yield you get for taking on the extra risk associated with high yield debt in comparison to investment grade debt. Leaving aside the riskiest of high yield bonds, incremental spreads are in the 0 to 6th percentile of the history shown here. Again, a lower percentile means it's more expensive.

Charts like this affirm what we see when we look at individual bonds, which is that we generally find that the return available in high yield-rated debt is not sufficient to compensate us for the incremental credit risk. We generally find that we can capture a lot, if not most, of the yield in high yield bonds by buying investment grade bonds, and we take on much less credit risk in the process. That explains why most of our investment activity has been directed towards longer-duration, highly rated bonds. But even within those investments, acknowledging the low spreads that prevail, we have been steering our investment activity toward more liquid, more plain vanilla bonds, because we find that more esoteric bonds aren't compensating us for the lack of liquidity.

[Please reference slide 22] Let's now review the two funds' performance and activity for the quarter, starting with New Income.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

[Please reference slide 23] This table shows the contributors and detractors from performance during the quarter. The bottom right shows that New Income returned 0.92% before fees during the quarter.

The largest contributor to performance during the quarter were asset-backed securities or ABS backed by equipment. The return on these ABS was driven by coupon payments, partially offset by lower prices as a result of an increase in risk-free rates.

(00:18:07)

The second- and third-largest contributors to performance were collateralized loan obligations or CLOs backed by corporate loans, and CLOs backed by commercial real estate loans, respectively. Most of these bonds are floating rate. The return was driven by coupon payments, with some additional benefit from higher prices due to a decrease in spreads.

The only sector-level detract from performance during the quarter were Treasury bonds, which decreased in price due an increase in risk-free rates. While there were other individual investments that detracted from

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

performance during the quarter, there were no other meaningful detractors at the sector level.⁵

[Please reference slide 24] This table shows the breakdown of the New Income portfolio by sectors. At the bottom, we see that the portfolio's yield as of March is about 20 basis points higher since the end of the year, while the duration is about a quarter of a year longer. The increase in yield is due to the increase in yields across the market that we discussed, and the higher duration is due to our duration-extending investments during the quarter.

[Please reference slide 25] These pie charts show the portfolio broken down by investment idea, which is a more granular look at the portfolio's exposures. There is a slice of the pie dedicated to any individual idea that is at least 4% of the portfolio. The light blue Other slice is the sum total of all ideas that is each individually less than 4%.

Investments during the quarter included the following high-quality bonds: agency mortgage pools, ABS backed by equipment, agency-guaranteed commercial mortgage-backed securities or CMBS, nonagency

⁵ Past performance is not indicative, nor is it a guarantee, of future results.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

residential mortgage-backed securities, ABS backed by credit card receivables, ABS backed by prime-quality auto loans, and AAA-rated utility cost recovery bonds. On average, these investments had an average life of 5.5 years. In addition to those investments, we added to and extended the duration of our Treasury holdings. We also bought a AAA-rated floating rate CLO and, within the credit holdings, we bought a BBB-rated corporate bond.

(00:20:16)

During the quarter, we sold short-maturity, highly rated bonds with an average life of 1.2 years. We also sold a BBB-rated corporate bond because it had become shorter and its spread had compressed, resulting in an expected future total return that was no longer attractive in comparison to other investment opportunities.⁶

[Please reference slide 26] Overall, New Income's credit exposure is unchanged since the end of the year. As a reminder, we define credit as anything rated BBB or lower. The percentages on this chart show the total credit exposure which, on the right, is unchanged since the end of 2023 at

⁶ 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 fpa.com. Past performance is not indicative, nor is it a guarantee, of future results.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

10%. Over 90% of the portfolio is held in a combination of cash, Treasuries, and other highly rated investments. We note that the quality of this portfolio is much higher than the average short-term bond fund.

[Please reference slide 27] This chart shows an estimate of the return on New Income over the next 12 months, before fees, based on the changes in yield shown on the x-axis. This estimate assumes that we don't buy or sell anything during those 12 months, and also assumes that the reference yield on every bond in the portfolio changes by the amount shown on the x-axis.

For example, the bar above +100 assumes that everything from the index on our floating rate investments increases by 100 basis points to the yield on our longest fixed rate bonds increases by 100 basis points over 12 months. If that were to happen, this chart estimates that New Income would—estimates that New Income would return 2.6% before fees over 12 months. On the right, we see that New Income could withstand a greater than 200 basis point increase in yields and still produce a positive return before fees over 12 months. The left-hand side shows that New Income

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

could return 7.25% before fees if yields decreased by 100 basis points over 12 months.⁷

(00:22:11)

The short-term upside potential on the left and the short-term downside protection on the right of this chart show why we think the duration that we have added to the portfolio has created a return profile that can capture a lot of the short-term upside of long-duration bonds like those found in the Aggregate Bond Index, while offering more short-term downside protection.

[Please reference slide 28] Turning now to Flexible Fixed Income.

[Please reference slide 29] This table shows the contributors to and detractors from Flexible Fixed Income's return. The bottom right shows that Flexible Fixed Income returned 1.35% before fees during the quarter.

The largest contributor to performance were CLOs backed by corporate loans, which benefited from coupon payments and higher prices due to lower spreads.

⁷ Hypothetical results do not reflect trading in actual accounts and does not reflect the impact that all economic or market factors might have on the results shown. 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.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

The second-largest contributor to performance were the corporate holdings, which included corporate loans, corporate bonds, and the small common stock holdings. We note that there is a typo here on this slide. The common stock weight should be 0.2%, and the common stock contribution to returns should be slightly positive. We'll fix that when we post these slides after the webcast. The corporate holdings return was driven by a combination of coupon payments and higher prices due to lower spreads.

The third-largest contributor was ABS backed by equipment, due to coupon payments, which were partially offset by lower prices as a result of an increase in risk-free rates.

Treasuries and agency mortgage pools were the largest and second-largest detractors from performance respectively. Both investments decreased in price due to an increase in risk-free rates.

While there were other individual investments that detracted from performance during the quarter, there were no other meaningful detractors at the sector level.⁸

(00:24:07)

⁸ Past performance is not indicative, nor is it a guarantee, of future results.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

[Please reference slide 30] This table shows the Flexible Fixed Income portfolio broken down by sector. The bottom of the table shows that the yield is unchanged since the end of the last year, while the duration is about a quarter of a year longer.

[Please reference slide 31] These pie charts follow the same format we showed earlier. Investments during the quarter included the following high-quality bonds: agency mortgage pools, ABS backed by equipment, agency-guaranteed commercial mortgage-backed securities, nonagency residential mortgage-backed securities, ABS backed by credit card receivables, ABS backed by prime-quality auto loans, and utility cost recovery bonds. On average, these investments had an average life of 5.5 years.

In addition, we added to and extended the duration of our Treasury holdings. We also bought a AAA-rated CLO. Lastly, we bought a BBB-rated corporate bond, which we count as credit.

During the quarter, we sold high-quality bonds with an average life of less than a year. We also sold a high yield bond, a bank loan, and a BBB-rated corporate bond. Those three credit sales occurred because the escalation in prices due to lower spreads made the expected future total

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

returns on these three credit investments unattractive in comparison to high-quality investments that we can make.⁹

[Please reference slide 32] Partially due to those credit sales, the credit exposure decreased from 23% at the end of 2023 to 20% at the end of March, consistent with our views about the lack of attractive investment opportunities in credit markets.

[Please reference slide 33] Finally, this return simulation follows the same format as the chart we showed a few minutes ago. On the right, we see the Flexible Fixed Income portfolio could withstand a greater than 200 basis points increase in risk-free rates and still produce a positive return before fees over 12 months. On the left, Flexible Fixed Income could return 7.8% before fees over 12 months if rates decline by 100 basis points. Here again, we believe the portfolio offers the potential to capture a lot of the short-term upside of long-duration indices, while offering better short-term downside protection and a higher yield.¹⁰

(00:26:25)

⁹ 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 fpa.com.

¹⁰ Hypothetical results do not reflect trading in actual accounts and does not reflect the impact that all economic or market factors might have on the results shown. 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.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

[Please reference slide 34] That concludes our prepared remarks.

We are happy to take any questions.

Kristina: Thank you to those of you who have submitted your questions in advance. We addressed many of them in the prepared remarks and will start with taking the outstanding ones and then move on to the live questions.

Abhi, first question. **“How do you decide which bonds to hold to maturity and which to sell? What percentage do you normally hold to maturity?”**

Abhijeet: We make every investment on the assumption that we are going to hold it to maturity. Now, if things change between now and maturity that cause us to reevaluate that decision, we are always happy and willing to do so.

As it relates to selling bonds, generally speaking, we try to sell the bonds that offer the lowest potential total return going forward. Typically, that ends up being the shortest-maturity bonds but that's not necessarily the case. It really depends on the price of the bond, call features embedded in the bond, the spread, expected returns, etc. But generally speaking, we're trying to show—we're trying to sell the bonds that have the lowest expected

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

returns, to then turn around and buy bonds that have much higher expected returns.

We received another question asking us to elaborate on the current opportunities and/or risks in CLOs.

(00:27:50)

We have two types of CLO investments in the portfolio. The first type of investment that we have is CLOs backed by corporate loans. Most of what we have in both portfolios with regards to our corporate loan CLOs are CLOs that are backed by middle-market loans. As we invest in those bonds, we are seeking to invest with lenders and debt managers who we believe have a great track record of performance, think about investing in a way that's similar to how we approach investing, and are generally thoughtful about risk versus reward. That means that we're not willing to buy bonds issued by every manager. We try to be selective in our investments.

Now with that said, in terms of the investment opportunity, we have generally been seeing fewer opportunities in CLOs, mostly because we are seeing better opportunities in longer-duration fixed rate bonds. Part of that is due to the fact that CLOs have limited amounts of call protection, meaning that the CLOs that we've seen typically only have 1-2 years of call

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

protection. That sort of call protection does not offer us an attractive upside versus downside return profile long term, whereas the fixed rate bonds that we've generally been buying have much more call protection and offer us a better short-term upside versus downside return profile.

The other type—the other types of CLOs that we own in the portfolio are CLOs backed by commercial real estate loans. There again, we're generally seeing better opportunities in other parts of the market, and so we've not been directing a lot of capital there.

Now having said that, there has been some hair on the commercial real estate CLO sector in general because of what's been happening in the commercial real estate market at large. Now with that said, we wanted to provide a quick overview and a quick update on the commercial real estate CLOs that we have in the portfolio just to give people comfort that [we believe] the headlines are not really relevant to the [commercial real estate CLO] holdings that we have in the portfolio.

(00:30:00)

What we prepared is this slide, which shows a summary of the commercial real estate CLOs that we have in the two portfolios. And again, as a reminder, the bonds that we have are all AAA-rated, for what it's worth.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

But, more importantly, what we've shown here is the loan-to-value on the bonds that we own. We've provided a breakdown of the underlying collateral exposure that we have in our commercial real estate holdings. We showed here a loan-to-value ratio which is based on the most recent appraised value which, just as a sidenote, we assume much more conservative property values than what is assumed by the appraisals. But just to give people a comparable datapoint to use, we've used the appraised values here.

And then to address the concerns about delinquency rates, we provided the datapoints shown in the fourth and last columns here respectively for the two portfolios. And in those columns, what we've done is we've looked at every loan in the portfolio that was greater than 30 days delinquent, and we assumed that those loans were worth zero, and then we recalculated the loan-to-value on our bonds assuming a zero value for any delinquent loans.

And the takeaway here is that once one does that analysis, you can see that it does not have what we believe is a material impact on the loan-to-value on the bonds that we have in our portfolio. If you include the value of the delinquent loans, the loan-to-value, for example, on the bonds held

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

in New Income goes from 36% to 40% if you wipe out all of the delinquent loans. And similar numbers prevail for the investments held in the Flexible Fixed Income portfolio.

(00:32:13)

So in summary, yes, there are reasons to be concerned about commercial real estate. We are not at all concerned about the commercial real estate CLOs that we have in our portfolio because of how we've underwritten them.

[Please reference slide 34] **There was another question asked about what parts of the yield curve do we utilize to extend duration, and what specific maturity points do you like.**

So, in order to avoid making a yield curve bet, which inherently means that one is making a macroeconomic bet because you're then making assumptions about the shape of the yield curve will morph in the future based on the macroeconomic environment, we are applying the approach that we described earlier in this webcast, which is that we use our 100 basis point duration test to identify our ideal duration, and then we try to buy bonds that have a maturity profile that most closely lines up with that duration.

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

Now, it's not perfect. We can't always buy the bonds that lie exactly on top of our ideal duration, so in reality what ends up happening is if, at the end of the first quarter, our ideal duration lands at a maturity profile somewhere around 5 years, then in reality we're buying bonds that have a maturity profile of somewhere between 4 to 6, or 4 to 6.5-7 years, but have a duration that ends up being in that 4 to 5 or 5.5 year area.

And we'll just constantly move that target based on the rate environment. So as we discussed earlier, when rates are much lower, we are going to shorten the ideal duration that we're trying to buy. And if rates end up being higher then we will push out the duration that we're trying to buy.

But part of the reason that we are so transparent about our 100 basis point test is so that people don't have to wonder about what part of the yield curve we're trying to land on or what specific maturity points we are trying to buy. People can look at the yield curve on any point in the day, on any day of the week, and have a really good idea of the maturity profile that we're trying to buy because we are so transparent about our 100 basis point test.

(00:34:19)

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

And then lastly, we had a question asking what we did with the proceeds from the maturity of the T-bill from New Income, as it represented over 4% of the portfolio.

So, in general, when we report our holdings, the cash and equivalent in the portfolio is a combination of the actual cash that we have and the short T-bills that we have in the portfolio. That cash and equivalents is used to manage our daily liquidity, and it will be one source of capital that we will use to then go out and buy longer-duration bonds or whatever other investment we might identify.

If—to the extent that a T-bill matures, then we will roll the maturity of that T-bill into another T-bill, and we're generally doing that on a one- or two-week basis.

Kristina: Thank you, Abhi, and thank you for those who joined our call. We appreciate you listening to FPA New Income and FPA Flexible Fixed Income First Quarter 2024 Webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: Thank you for participating 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

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

few weeks at fpa.com. We urge you to visit the website for additional information about the funds, such as complete portfolio holdings, historical returns, and after-tax returns.

(00:36:14)

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

Please visit FPA.com for future webcast information, including replays. We post the date and time of upcoming webcasts towards the end of each current quarter, and webcasts are typically held three to four weeks following each quarter end. If you did not receive an invitation via email for today's webcast and would like to receive them, please email us at crm@fpa.com.

We hope that our quarterly commentaries, webcasts, and special commentaries will keep you appropriately informed on the strategies discussed today.

We do want to make sure you understand that the views expressed on this call are as of today and are subject to change without notice, based

**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

on market and other conditions. These views may differ from other portfolio managers and analysts at the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

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

Any mention of individual securities or sectors should not be construed as a recommendation to purchase or sell such securities or invest in such sectors, and any information provided is not a sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the security or sector examples discussed.

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

(00:38:04)

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



**Q1 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)
Webcast
May 9, 2024**

other matters of interest to a prospective investor. Please read the prospectus carefully before investing.

The prospectus for each fund may be obtained by visiting the website at 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 distributed by UMB Distribution Services, LLC. UMB and FPA are not affiliated.

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

(00:38:53)

[END FILE]