FPA New Income, Inc. (FPNIX)/
FPA Flexible Fixed Income Fund (FPFIX) Conference Call
March 26, 2020

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 and the 'March 20, 2020 Special Fund Update' ("Handout"), posted on fpa.com. The webcast slide and/or Handout 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 and Handout.

You should consider FPNIX and/or FPFIX (each a "Fund", and collectively the "Funds") investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details each Fund's objective and policies and other matters of interest to the prospective investor. Please read the Prospectus carefully before investing.

This transcript must be preceded or accompanied by a prospectus for the Funds. The prospectus for FPNIX dated January 31, 2020 can be accessed at: https://fpa.com/request-funds-literature. The prospectus for FPFIX dated April 30, 2019 can be accessed at: https://fpa.com/request-funds-literature. The most current prospectus can always be obtained by visiting the website at www.fpa.com, by calling toll-free, 1-800-982-4372, or by contacting each Fund in writing.

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Moderator: Hello and welcome to today's webcast. My name is Amanda and I'll be your event specialist today. All lines have been placed on mute to prevent any background noise and please note today's webcast is being recorded. During the presentation, we will have a question and answer session. You can ask a text question 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.

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And finally, should you need any 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 upper right-hand corner of your screen for online troubleshooting.

And it is now my pleasure to turn the call over to Ryan Leggio. Ryan, the floor is yours.

Ryan: Thank you so much. Good afternoon, everyone, and thanks so much for joining us today. We'd like to welcome you to this special webcast for the FPA New Income and FPA Flexible Fixed Income Funds. My name is Ryan Leggio and I am a partner at FPA.

The audio, transcript and replay of today's webcast will be made available as soon as possible on our website FPA.com and so if you have to log out early, rest assured the replay will be up very soon in the coming days.

In just a moment you will hear from portfolio managers, Tom Atteberry and Abhi Patwardhan.

Tom, as many of you know, is a partner at FPA and joined the firm in 1997. He has been a portfolio manager of FPA New Income since 2004 and a portfolio manager of FPA Flexible Fixed Income since its inception in December 2018.

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

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Before I hand over the call to Tom and Abhi, there are just certain things we'd like to cover at the onset. First and foremost, and most importantly, from everyone at FPA, we hope that everyone is healthy and managing through the situation as best we all can in our respective states and our respective countries around the world. Our first priority at FPA is to ensure that we are taking care of our fellow partners, employees, families and clients. Fortunately, FPA has a solid debt-free balance sheet and at this time, everyone is healthy at FPA and we obviously hope that continues in the future.

We have activated our business continuity protocol and all team members have been working remotely. Regular conference calls with and without video have allowed us to communicate and operate effectively. We are currently actually conducting this call with each of us in our separate locations and we apologize in advance if you hear any kids running in the background, as some of us have kids at home. We'd like to thank everyone at FPA who has made this possible.

Given how volatile bond market conditions have been, we believe our client partners should not have to wait another week or two to know how the funds have changed since the end of the year, what the portfolio managers have been doing, and to hear our thoughts as to the investment environment. This is why we posted an interim update on our website last week with relevant fund and market statistics. We will continue to keep our client partners informed intra quarter if market conditions warrant.

To that end, I'd like to pause for just a moment because this is a little bit different than other webcasts in that the team is not going to be going through traditional slides, but we have just posted earlier this morning update sheets for both of the funds—FPA New Income and FPA Flexible Fixed Income.

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Tom and Abhi will be referring to certain fund statistics and market statistics found on this document, and so I'm going to pause for a moment because this can be found on our homepage at FPA.com, and if you look to the left center of the homepage under ***Special Commentaries*** under March 26, 2020, you will see *FPA New Income and FPA Flexible Fixed*

Income - March 2020 Special Fund Update [("Handout")].[1] If you click on that link and into the PDF, you will be able to reference some of the statistics that Tom and Abhi will be referencing. So I want to pause for just a second so people can do that. We apologize that this wasn't maybe as seamless as other webcasts but we literally were just able to get this out, and we will be referring to this. So let me just pause for just a second so those of you who want to refer to it can find that on our website.

Okay, at this time, we wanted to let our client partner know that this call will likely take the place of our normally scheduled quarterly call. We will still release a detailed first quarter investment letter in the coming weeks and a full presentation update deck on our website as soon as possible, and those will be posted in the coming weeks under the FPA New Income or FPA Flexible Fixed Income portions of our website.

We received numerous questions ahead of this call, which we all reviewed over the last few days, and we are answering most of the frequently asked questions either in the prepared remarks or as Tom and Abhi go through some of the Q&A at the end of this call. If you have additional questions after the call or if we did not answer your question for whatever reason, please feel free to reach out to your representative or

[1] A note for readers, the Handout is also posted together with this Transcript and the webcast slides on fpa.com in the *Webcast Replay* section on both the FPA New Income, Inc. and FPA Flexible Fixed Income pages of the website.

email crm@fpa.com. We promise we will get back to you as soon as we can.

(00:05:56)

Before I turn it over to Tom and Abhi, I want to provide a brief executive summary for those who may need to hop off the call early or for those who want to understand what we believe are the most important takeaways from today's call. Then Tom and Abhi will provide a portfolio update for both funds, a market update, and answer questions that were presubmitted.

There are three main points to this brief executive summary.

The first, it is market and economic conditions like these that these funds were made for, and we all say that in two respects. First, because we have always stress-tested our holdings, we do not believe there are any permanent impairments of capital in the funds today. Any volatility therefore we believe are mark-to-market losses and not permanent losses. This, as our clients know, is what we focus on the most. We have always underwritten to 2008 and 2009 economic conditions, and even worse in some cases, even when the economy was doing well, even before there was this health situation going around around the globe.

[See webcast slide 2 and 3] The second aspect of this first point is that we are very proud we are still positive over the trailing 12 months in both FPA New Income, as of last night,[2] even after the market dislocations over the past several weeks. This is in stark contrast, I think as many of you know, to many short-term bond funds were down 4%, 5%, 6% and even more over the trailing 12 months. While Flexible Fixed Income's goal is positive returns over 3-year periods and not rolling 12-month periods, I would note that fund is positive as well over this time period as well, again through last night.

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The second point we want to make is we believe we are seeing incredible yields and risk-adjusted value in the AAA and the AA space today because of forced selling by many market participants who are getting outflows and who don't want to sell their credit-sensitive[3] holdings at a loss yet, and a massive rush to cash in general. The proof of this latter statement, this rush to cash, is that 3-month treasuries continue to yield a negative yield and as of today are yielding around negative 9 basis points. AAA-rated bonds that just a few months ago yielded 1% or 2% are now yielding sometimes 3% and even 4% because of these market conditions. The team will go into more detail into this situation, how the Federal Reserve actions impact this part of the market, and the implications for both funds.

[2] "Last night" refers to March 25, 2020.
[3] "Credit Sensitive" are securities and other fixed income debt rated BBB and below.

Two sub-bullet points under this point.

If and only if you have at least a 12-month time horizon, we think today's investment climate is a very compelling time to think about New Income, especially compared to short-term treasuries now with a negative or near 0% yield.

If you have a multi-year time horizon, [we believe] Flexible Fixed Income remains well-positioned to take advantage of the dislocation starting to unfold in the below-investment grade market, as well as the conditions in the BBB market.

The final point we want to make in this executive summary is we believe we are prepared for whatever comes next.

A couple of sub-bullet points. First, we believe both funds have sufficient liquidity available, and Tom and Abhi will go into that point. We have not been a forced seller having to take discounted pricing on bonds we would like to otherwise own over the long term. And the last point, which is sometimes hard in these market environments, is always remember that market volatility is our friend and we will use it to take advantage of what we believe are the best risk-adjusted opportunities in the market.

And with that executive summary, I'd like to turn it over to Tom and Abhi.

Abhijeet: Thanks, Ryan. Thanks for that intro and thank you to everyone on this call for taking the time to be with us, as Ryan mentioned, during what must be a personally challenging time for everyone and also a professionally historic time for all of us.

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So we want to start by getting everyone on the same page about where the markets have been and where we are today, and then we'll talk about how this impacts New Income and towards the end of the call, Tom will discuss Flexible Fixed Income.

So for New Income specifically, the short answer and the high-level summary is that the bond markets currently have sold off a lot in the past few weeks, but we view this as a short-term, and perhaps a very short-term, mark-to-market situation for New Income.

So for the next little bit, I'm going to reference some of those charts that were in the Handout that Ryan had directed you to at the beginning of the call, so hopefully most, if not everyone, was able to access our website and pull down that Handout.

And we're going to go through a lot of information here, but I think it's helpful for everyone to have a sense of the magnitude of the moves that we've seen in the market, to help you get a better understanding of what our portfolio looks like and what it has done.

So we'll start off on page 4 of the Handout where towards the top or in the middle of the page, you can see a chart showing the treasury yield curve as at the end of the year, end of 2019, and as of Friday, March 20.

What I'll note here is that at the beginning of the year, we started with a treasury yield curve that yielded more than 1.5% across the entire curve. Today treasuries, as Ryan had mentioned, are slightly negative on the very, very front end in the T-bill market, and the yield is somewhere between 8 to 35 basis points for the 1-3 maturities that we generally focus on. So in other words, risk-free rates have rallied—or declined—by about 125-150 basis points for bonds that are maturing within 5 years, and about 110 basis points for longer bonds.

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So what this has meant is that for most of the year, there was a huge interest rate rally that led to a lot of price appreciation on bonds. But then as we all know, the markets started to grasp the impact of the pandemic.

So now I direct you to page 5 of the Handout, where we have a chart showing spreads on various sorts of asset-backed securities. So this chart is the most relevant chart for us, because it shows a lot of what we own in our portfolio.

And what we're showing here on this chart is spreads for AAA bonds that are backed by credit cards, prime auto loans, equipment and AAA-rated tranches of CLOs. And the quick takeaway here is that there has been a huge increase in spreads, and you can see this if you just look at the right-hand side of the chart, which essentially has a vertical line going upward. And we have also provided a few key data points in the table below the chart.

At this point, we are way past the spreads that we saw during the 2015-2016 energy-related selloff.

Just to give you some context, if you look at that table underneath the chart, you will see 3-year AAA credit card ABS bond spreads went from 26 basis points at the start of the year to 200 basis points as of Friday [*Note: data as of Thursday, 3/19/20. Friday data not available at the time of the call*], that's a 174-basis point increase.

3-year AAA prime auto ABS bond spreads went from 33 basis points at the start of the year to 200 basis points as of Friday [*data as of Thursday, 3/19/20. Friday data not available at the time of the call*], that's a 167-basis point increase.

Equipment ABS bond spreads for AAA bonds went from 53 basis points at the start of the year to 300 basis points as of Friday [*data as of*

Thursday, 3/19/20. Friday data not available at the time of the call], that's almost a 247-basis point increase in spread.

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And then lastly, AAA-rated CLO spreads went from 120 basis points to 400 basis points as of Friday, a 280-basis point increase.

Now, having said all that, when the market is moving around a lot like it has been recently, these data points become stale quickly. So just as an example, I just mentioned that as of Friday [*data as of Thursday, 3/19/20. Friday data not available at the time of the call*], AAA-rated tranches of CLOs were trading at 400-basis point spreads or even higher and as of today, AAA-rated tranches of CLOs are now trading at 200-basis point spreads, so they've now come in by about 50% just in the last 24 hours.

On the next page of the Handout, page 6, we have a chart showing the Bloomberg Barclays High Yield Index, and here we are showing the yield and spread on the index. Again, kind of the same story. If you look on the far right-hand side, you can see the sharp vertical line upward. The overall index as of Friday is down by about 20% in terms of price. The index spread, as you can see in the table below the chart, is now[4] greater than 1,100 basis points and yielding almost 12%. Compare that to the

[4] "Now" refers to Monday March 23, 2020.

start of 2020 when the spread was just 350 basis points and the index yielded just over 5%.

Now, I'm sure a lot of people on the call are aware that there is currently a price war going on in the oil market, so you would be correct if you assumed that a lot of the movement in the high yield index has been energy-related, which is why we tend to focus on the bottom chart on this page 6 of the Handout, which looks at the BB portion of the market excluding energy. We find that to be a useful gauge of where the fairway of the market is trading in terms of how expensive or cheap it is.

So again, it's kind of a similar story here. In terms of price, that part of the market is also down about 20% since the start of 2020. And you can see in the table below this chart that the spread has increased from 200 basis points at the start of the year to 900 basis points as of Friday.[5] And the yield has, similarly, gone from about 3.5% to about 9.5%.

[Please refer to page 7 of the Handout] On the next page of the Handout, we have got some information related to the leveraged loan market. There's a bar chart that shows the price on the leveraged loan market and the year-to-date price moves. That leftmost bar shows that the

[5] The data in the chart and the statistics noted are as of Monday March 23, 2020. On Friday March 19, 2020, the spread was 781 bps and the Yield to Worst (YTW) was 8.58%.

overall leveraged loan market index is down by about 19% in terms of price on a year-to-date basis.[6]

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Now what this chart is showing is that there is some skew in this market here as well, with energy loans—shown on the far right-hand side—down about 35% in terms of price. And on the left-hand side, you can see that food and healthcare loans are down by about 16%. But bottom line, everything is down a lot.

We included a chart underneath here showing the yield and spread on the overall loan index. This is at the bottom of page 7 of the Handout. As you can see in the table underneath that chart, the index yield is at about 11% and the spread is over 1,000 basis points, and compare that to the start of 2020 where the yield was just about 6.5% and the spread was only about 470 basis points.

So here again, similar to what I mentioned in the AAA-rated portion of the CLO market, things are moving around a lot. These data points that we just showed on the loan market are already stale. Just today, in fact, or maybe over the last two days, some of the loans that we've been following are up about 10-15 points in terms of price over the last 48 hours. So it’s been a very volatile market to say the least.

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[6] YTD is through Friday March 20, 2020.

So how does all this apply to New Income? Well, prior to all of this market turmoil, for the past several quarters—and in fact, really the past few years—we have been positioning the portfolio for protection. And it's not because we knew that there was going to be a global pandemic but it's because we felt that things were just too expensive, and we felt that we shouldn't have a lot of exposure to risk of various forms when everything in the world is priced for perfection and there's no room for bad things to happen—because now bad things are happening.

So here are the five steps that we had been taking for the past several quarters, if not the past several years.

Number one, we shortened duration. We talk a lot about our duration test, and I'm sure if you go to any of our historical webcasts and letters, you will find some description in there about our duration test. And the way the test works is that we only look to buy bonds if we expect them to have a breakeven or positive total return over the course of a year, assuming that the yield on the bond is going to increase by 100 basis points during that year.

And the goal of this approach is really to try to get to what we think is a good risk/reward with respect to duration risk, rather than trying to own, let's say, a 3-year duration all the time.

So what happened is that as interest rates started to decline beginning in 2019, we began to shorten the duration of our holdings to try to get back to the right risk/reward. This duration shortening certainly provided protection against rising interest rates, which is helpful, especially now that treasuries are yielding less than 50 basis points going out to 5 years. But this duration shortening is also very helpful for providing protection against spread duration risk. In other words, it helps to insulate the portfolio from price movements that are caused by higher spreads, and certainly by the higher spreads that we just went through in all of these market charts.

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Number two, we actively reduced our exposure to higher spreads. So we've been commenting now for a long time that spreads on high-quality bonds were very, very low. So to account for this, for the past several quarters we have been adjusting our usual 100-basis point duration test. So rather than just assuming that the yield on the bond that we’re buying will increase by 100 basis points, we’ve been assuming that the yield will increase by something more than that, to account for the spread widening to what we think is a more “normal” level. We only bought bonds that we expected would produce a positive or breakeven 1-year total return if the yield rose by 100 basis points—and if the spread increased to a more “normal” level. Now, I’m using the word “normal” in quotes. We clearly had no expectation that spreads would increase as much as they have over the past few weeks.

So these steps that we took to reduce interest rate duration and reduce the spread risk have been helpful in reducing the magnitude of the price declines in the portfolio over the past few weeks.

And just to give you an example of what we’ve been through, at one point, the spread on 2-year prime auto loan ABS and prime credit card ABS—these are AAA-rated bonds—at one point, the spread on these bonds had widened by about 175-185 basis points on a week-over-week basis. That was the single worst week in the history of the asset-backed security market as it relates to these bonds.[7] But because of the steps that we had been taking to protect our portfolio, our bonds were only down by a few points.

Number three, overall we've been increasing the quality of our holdings. Over the past several quarters—and this is actually going back a few years now—we had been moving up in quality with respect to the holdings, and so I wish we had the table to show you but we’ll certainly publish an updated table when we post our regular Q1 results.

[7] Source: J.P. Morgan. Week ending March 20, 2020.

But what that table will show you is that over the past several quarters, there has been a migration in the quality of our holdings towards more AAA- and AA-rated bonds. And the reason we've been doing that is because we felt for a long time that we have not been getting paid to take on more credit risk.

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And importantly, what you'll see in that table as well is that we have barely have any exposure to BBB-rated bonds and in fact, on the very front page of the Handout that we published on our website this morning, what you can see is that in the New Income Fund just 0.1% of the portfolio is in BBB-rated bonds. And again, here, the reason we never really got involved in the BBB-rated portion of the market is because we just felt like we were not getting paid on an absolute basis for that sort of credit risk.

Now it turns out in retrospect that that was a good decision because now a lot of those bonds are getting downgraded, and the spreads on those bonds have increased quite dramatically, beyond levels that were seen during the 2001 recession.

Number four, we increased our treasury exposure. As I mentioned earlier, up until a few weeks ago, spreads were so tight on investment grade and high-quality bonds that the extra compensation that we got to take on credit risk became so low that the opportunity cost of us owning a liquid risk-free asset like treasuries became low enough to warrant us increasing our treasury exposure.

Now it turns out again in retrospect that's been helpful from a liquidity standpoint and giving us access to a ready source of capital and to take advantage of investment opportunities.

And finally, number five, we reduced credit risk overall. Again, not to belabor the point but we've been commenting for a long time about how expensive the credit markets are and how they are priced for perfection, and here I'm referencing the high yield and the leveraged loan market.

So what you'll see when we publish our typical Q1 slides in a few days is that we've been reducing our credit exposure over the course of the past several years, and what you'll see if you look at the first page of the Handout that we posted this morning is that credit, in our portfolio defined as bonds that are rated BBB and lower, is only 6.5% of the fund versus our total credit capacity of 25%.

So if we wrap everything together, despite these steps that we have been taking to prepare the world—or sorry, to prepare the fund for a world like today—the mark-to-market moves on our high-quality bonds have really been the biggest driver of performance in New Income over the past few weeks.

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So let's talk about performance for a second. There are two drivers of performance: in the short term, mark-to-market moves and price certainly drive performance; and in the longer term, permanent impairment of capital will drive performance.

So if you believe that we are not dealing with a permanent impairment of capital, then what we've been going through in New Income is really just a short-term mark-to-market situation, and we do in fact believe that we have a mark-to-market situation. In the market today, people are selling what they can. They are selling the things that will have the smallest price hit. That tends to be highly rated, short duration bonds, similar to the sorts of things that we own. So as a result of that, we have seen some price declines in our holdings.

We do not think that we have a permanent impairment of capital. Now I know that people have been waking up over the past few weeks saying to themselves, "My God, what if losses increase?" I mean, truth be told, we've been worrying about principal losses every single day for decades now. For years we have been buying bonds assuming that we are going to get a repeat of the 2008 financial crisis and then some. That's has been true in the past and it is true about the portfolio today.

So just to give you a sense of our portfolio, our prime auto ABS bonds, which are all highly rated and represent about 17% of the portfolio,[8] can withstand losses that are on average 20 times greater than the losses that were experienced during the financial crisis.[9]

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Even our subprime auto ABS holdings which, again, are all highly rated, but are only about 4.5% of the portfolio,[10] even those bonds can withstand losses that are over 3 times greater than the losses experienced during the financial crisis.

Our non-agency mortgage bonds, again, all highly rated and representing about 5.5% of the portfolio,[11] have an average loan-to-value of less than 40%—and that does not take into account home price appreciation since the time that we bought the bonds.[12] If you take into account the home price appreciation since the time that we bought the bonds, so this is home price appreciation that's already happened, our loan-to-value is less than 30%.

Even in our CLOs, the vast majority of which are highly rated and have a short maturity, we have always assumed that we would see losses on the underlying loans that are something like 3 times the losses that we saw during the financial crisis.

8 As of March 20, 2020.

9 The analysis is based on the bond's credit enhancement which equals a sum of all lower rated tranches, overcollateralization and reserve balance divided by total loan balance. Assumed loss coverage equals credit support divided by peak loss of the issuer. Financial crisis references the 2008 Great Financial Crisis.

10 As of March 20, 2020.

11 As of March 20, 2020.

So we do not think we have a permanent impairment of capital; we [believe we] have mark-to-market challenges.

And not to trivialize the situation, but really what we have is a math problem, and here's what I mean. I mentioned our duration test. Here is a simplified version of the test. If we buy a bond at par with a 2% coupon, the bond can decline in price from par to 98—a 2 point loss—and we would still expect to have a breakeven return on the bond over the course of a year because we would earn 2 points of coupon over the year to offset that 2 point price decline.

What we're dealing with today is that we've taken the price decline on our bonds in the span of a couple of weeks, but it's only March so we've only earned 3 months of coupon.

So going forward, we expect two things to happen over the next nine months.

Number one, around 5-10% of the bonds held in New Income should mature before the end of the calendar year, so we would recapture whatever price declines we have on those bonds.

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To take an extreme example, we own in the portfolio a very short maturity AAA-rated prime auto asset-backed security that is marked nearly 2 points lower than it was at the beginning of the year. We expect

[12] Began adding to the Fund in 2015.

this bond to pay off next month, which means that we should capture about 2 points in the next 30 days.

Number two, we expect that we will get 9 months of coupon over the rest of the year that will offset the price declines that we've seen. It's just a matter of patience and letting time do its job.

[Please reference page 1 of the Handout] So on that note, you will notice that New Income has a yield-to-worst of around 4%.[13] I do want to point out that that number is greater than the return that we would expect over the course of the next year, and the reason is that, as I mentioned before, New Income has a meaningful amount of its portfolio in bonds that mature in less than a year but are currently priced at a discount.

So what's happening is that when the total return on those bonds gets annualized to a yield, the yield number ends up being greater than the actual expected total return.

As an example, if you have a bond that's maturing in a few months and is priced at 99, the yield shows up as a 6% annualized yield, but the actual total return you make was about 2%.

So based on our portfolio modelling, a version of this which we show every quarter and, again, we'll publish an updated version as of the

[13] As of Friday March 20, 2020. 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.

end of the first quarter in a few weeks—or sorry, in a few days here—so based on our portfolio modelling, we would expect that the actual total return on New Income over the next 12 months is something closer to a mid-3% total return before fees rather than the 4% before fees suggested by the yield-to-worst. Now, that assumes that rates and spreads don't change.[14] [Please refer to Page 2 of the Webcast slides for net performance of New Income since inception.]

So with all that said, Ryan mentioned this at the beginning of the call, for those who are looking to minimize their mark-to-market exposure and still get a return at a time when treasury bills and treasuries have negative yields or barely any yield to speak of, I personally think that New Income is a great fund to own and in fact, I've been putting my own personal money into it and I know that Tom has as well.

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[14] The information provided illustrates the hypothetical impact of rate changes on a fixed income portfolio's performance in one year assuming: (i) a gradual shift in yield over a 12-month period; (ii) zero reinvestment rate; (iii) new securities are not purchased to replace securities that mature within the 12 months. The hypothetical performance is presented gross of investment management fees, transactions costs, and operating expenses, which if included, would reduce the returns presented. **Stress Test data is hypothetical and provided for illustrative purposes only, and is intended to demonstrate the mathematical impact of changes in yield.** No representation is being made that FPNIX will or is likely to achieve results similar to those shown. Hypothetical results do not reflect trading in actual accounts, and does not reflect the impact that 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. Please refer to Page 2 of the Webcast slides for net performance of FPNIX since inception. **Past performance is no guarantee, nor is it indicative, of future results.** Please refer to the end of the Webcast slides for important disclosures.

And so with that, I'll hand it off to Tom now for some additional comments on New Income and some comments on Flexible Fixed Income.

Thomas: Thanks, Abhi, and thank you, everyone, for joining us this afternoon. I'm going to take Abhi's comments as a foundation and sort of address the investment strategy we'll be executing on our two fixed income funds over the intermediate—short to intermediate—term.

As it relates to the FPA New Income Fund, we'll be maintaining an elevated level of liquidity so as to protect the shareholders who continue to be invested in the fund, and to be able to take advantage of market dislocations. We're going to continue to strive to accomplish the positive return over a twelve-month period, which is one of the goals we seek for this fund on an annual basis. We will be making selected investments in the high-quality area, with maturities that are 12 months or less because this is where many good risk-adjusted opportunities we find in the marketplace today, as a result of some of the comments that Abhi has made regarding people needing to raise cash so selling very short maturity bonds that are high quality. We're going to shepherd the capital, be patient, and look for good long-term opportunities as they present themselves over the coming months and quarters. And then finally, we're going to need to limit the credit investments so we can optimize that positive return objective we've been seeking in the 12-month period. And we'll be doing that because it really dictates it, given the current volatile level of the environment we have for bonds.

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So shifting over to the Flexible Fixed Income Fund, and let me here say as well, I have committed capital into Flexible Fixed Income along with the money I committed to FPI—to New Income Fund—and Abhi has committed more capital to Flexible Fixed Income as well. As we've always said, this is a firm that is more than happy to go in the kitchen and cook and then eat what we make.

So let's start with what we're trying to accomplish in the Flexible Fixed Income Fund. We're seeking to get a positive return over a 3-year period, and we're seeking to get CPI plus 200 basis points as a return over a 5-year period.

So with that as a backdrop, this market selloff has the potential to be a good long-term opportunity to position the Fund for what it was intended to be, the longer investment horizon, time horizon, and a higher risk tolerance. We are focused here to commit capital to both the high-quality area and the credit investments as we try to accomplish these goals.

The number of the potential investments we have to look [at] has obviously increased over the last several weeks. Our avoidance of committing capital into the credit portion of the fixed income market has really served us well in Flexible Fixed Income year-to-date and is one of the primary reasons why over the last 12 months, it has had a positive absolute return. [Please reference page 3 of the Webcast] But it also gives us, because we shepherded that capital, the opportunity to redeploy it into what we find potentially as attractive credit investments.

In the high-quality area, the markdown that Abhi has talked about in the 1-3 year AAA and AA structured product bonds in both ABS, CMBS and MBS has some very interesting opportunities for us, and should offer some pretty interesting real return potential as we work through this process.

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If we go to page 3 of the Handout that you have on the website, we can sort of get an idea of what we've been doing. And if you look down towards the bottom, I'll start there first, you'll notice that the asset-backed columns have increased from the year end, which was a little over 33%, to almost 48% today as we've started to take advantage of some of the attractive opportunities in the 1-3 year area of high-quality asset-backed securities.

The mortgage-backed securities, the CMOs, have seen a small increase. We've had a few opportunities that presented themselves.

And you'll also notice that the corporate bond holdings, which really is what you find are high yield bonds and are levered loans, has seen an increase as well. This has mostly been adding to what we already own, but we've added and started to sort of gradually add to a couple of new positions that have been in our library of ideas for quite some time.

Some of the capital for that has come from the mortgage passthrough area where we see a dramatic decline from 18.5% down to about 7%. As Abhi has outlined, the stress test, we continued to stress test those securities and they started to fail that test, and so it made no sense to continue to own them, and that was sort of the impetus for us to reduce that exposure and increase our exposure into asset-backeds and into the corporate and high yield space.

And then finally, we have drawn some of the cash and equivalents down. You'll see it’s gone from 12.5% to 6.5%. I do want to make note that while we still have about 8% in the treasury market, these are extremely short treasuries. I think the longest one we have in there is somewhere around August of next year. They're short as well and are an area where we have a chance to utilize them for liquidity.

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[Please refer to page 3 of the Handout] As a result, if you just go to the top of the page, the result is a couple of things that come to mind. The first one is the yield-to-worst has increased from a 280 to a 375, while the duration of the portfolio has actually shrunk some. Now, keep in mind, most of that duration decline just comes from the fact that as yield goes up, duration tends to decline.

And then finally, I do want to highlight in the middle, if you look at that sort of credit allocation at the bottom, our credit-sensitive has started to grow, and at this point is roughly a little shy of 12%, while it was a little over 9-9.5% [as of 12/31/2019].

So with those two in mind, something to sort of think about as you look at Flexible Fixed Income and the New Income Fund, first off, the length of the markdown and the credit dislocations, that's unknown at this point. We don't pretend to know that. What we do know is these opportunities have expanded. It wouldn't be surprising that over time, you see that credit allocation between New Income Fund and the Flexible Fixed Income Fund diverge by a greater amount, because we are just in a position to be able to take some more of that credit risk within Flexible Fixed Income.

The duration of the two may also tend to diverge over time, as we are able to do 1-3 year high-quality asset-backed, mortgage-backed and

CMBS securities while for at least the time being, the New Income Fund is going to see more of its activity to those high-quality type securities in the 12 months and less area.

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And then finally on this point before I make some comments about the market environment and some of the activities that we've seen on more macro level, the teams are really excited about the long-term opportunity that we've seen, it seems to us, is being presented to Flexible Fixed Income. We hope that our clients are excited about it as well, that opportunity, and they'll trust us with either a portion of their capital or will remain to keep the capital they've deployed to us currently.

So with that in reference, I want to make a couple of comments. They're not really economics as much as somewhat economic, but a lot of it market as well.

Over the past several years, we have commented and written about our views about how market liquidity has changed, how lower quality credit has crept into high-quality fixed income funds, the growth of the BBB credit, and the leverage in the corporate sector, and the Federal Reserve's monetary policy was designed to push savers out of risk-free assets and into riskier assets. Lo and behold, we've had an exogenous event occur to the economy and all those elements have contributed to what we now see as a pretty dramatic market dislocation.

In our opinion, this is not a repeat of 2008. That selloff and recession was driven by an overlevered banking system that for some institutions resulted in their collapse. The result was very little money available for lending until such time as the bad debts were flushed through the system and capital was rebuilt into the banking community.

Today, this banking system is strong. New regulations have required them to be less levered and hold more equity. They're very well-capitalized, which means they are able to lend. The actions and programs that we are seeing being instituted by the Fed are designed to keep the capital markets functioning—they're injecting large amounts of cash into the banking system—and create a situation where the banking system and capital markets are in a position to provide that needed private lending to assist in getting the economy back up to some level of growth after the worst of this virus lockdown and its implications on the economy start to look more behind us than in front of us.

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The Fed has very much focused their programs on maintaining a strong financial and lending and banking system. They realize if they do that, it goes a long way to helping the economy recover, and then it allows fiscal policy and others to focus on households and businesses.

Today's recession caused by a collapse due to a pandemic, you know, and a drop in demand. This downturn may be relatively short but it will definitely be sharp, depending on a few factors, some of which we control, some of which we don't, will dictate the length of that. While we can control our social interaction and that may slow the virus spread, it is still an issue for our health system to deal with and try to spend time controlling, curing and really caring for those who happen to get this disease.

In terms of areas we can control, you've seen quite a bit happen in a very short period of time, The Fed has stepped forward with maximum liquidity to the system in order to facilitate the ability of capital markets to function. Every program they used in 2008 is resurrected and is being put into use today.

The good news about implementing these programs, they already know how to create them. They already know what needs to be done, so the time to get them into place should be shorter. An example was Monday, they announced that they would be purchasing, the Treasury Department would purchase, investment grade corporates with a 5-year and less maturity. That program should be up and running shortly.

They've announced it; they're funding it, they're putting it in place. They actually hired the manager to do it, which is Blackrock. But we've already seen some of the benefits of that as we've looked at and seen market prices for investment grade corporates, especially on the short end, tend to recover and tend to trade better than they did say a week or so ago.

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A week ago, as an example, the Fed said they'd purchased $500 billion in treasuries, and they'd do another $200 billion in mortgages. A week later, that went away and was replaced by the Fed will purchase whatever treasuries it needs to purchase and whatever mortgages it needs to purchase in order to make the system function, have the capital markets be liquid, and among other things, put that money into the banking system so that it can turn around and use that capital for other capital market activities to go away from treasuries and mortgages.

Fiscal policy, it involves politicians and so by its nature of late it tends to be slower, it tends to be ugly. Having said that, the first two real quick stopgap measures were passed very quickly to provide immediate funding into the healthcare system to try to find a cure, immediate funding into the hospital area to have them be able to buy equipment and supplies that they need, and to change the dollar amount of unemployment benefits and the length of which that they may be available to people.

What I find heartening and very positive is that third phase, which is the $2 trillion program that was announced had been passed by the Senate last night did not take very long to be put into place. We only now wait for the House to pass it, which they say will be done by noon tomorrow, and then that program can start to move forward as well. Keep in mind, $2 trillion equals about 10% of the GDP of this country.

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And when you look at it, it focuses on areas that make sense. It's trying to figure out and looking at plans to get capital into the hands of businesses and individuals. It's on getting capital to all types of business and individuals. It's designed to put money directly in people's pockets and directly into small businesses so they can bridge the liquidity needs they have during this period while we try to control the virus by minimizing the economy and sort of social interaction and keep people—I hate to use the word "locked down" but keep people sort of in place until we get control of the virus. It appears that that should go a long way to solving what's the broader issue, which is the insolvency risk that's out there if we stay idle for a very long period of time.

Looking at the programs is what we're seeing—and granted, it's still, you know, new and as such, maybe all the details aren't there—when you look at the direct payments to the households and the increase in employment benefits and the length of those employment benefits, to us we see that as a positive impact on consumer credit and their ability to make timely payments for credit cards and cars, or whether it's to pay their rent or to make their mortgage payments.

Looking at the small business side of it, it appears that those are also pretty well-designed to say okay, we're going to put money in your pocket so you can keep people employed and so that you can make your rental payments, which in that case means you can help the CMBS part of the marketplace by having a cash flow considered there.

There's no doubt that this program they put forward isn't perfect. It's going to have things people may not like. But it appears, in our view, to have been targeted and quick and of size to have a good impact on economic activity. You may not see it today; you may not see it for 30 days. But as you think about 45, 60, 90 days out, that improvement should become more evident.

(00:45:55)

A couple of comments on the market. We've seen these before and portfolio manager activities don't seem to change every time. They seem to do the same things over and over again. And so what they tend to do is when they see a market environment like this, they go to sell their highest quality, shortest duration bonds first because they figure that will have the least dollar impact on their portfolio. And this, lo and behold, is what we've been seeing happen for the last several weeks. That has also been what's caused us to have the mark-to-market issues that Abhi discussed and the impact it’s had on the portfolio.

We are reasonably comfortable that this pressured selling will ease in the near term as the portfolio managers satisfy their redemption requirements and, in fact, run out of high-quality short duration bonds to sell. Now sadly, if they continue to have redemptions after that, that’ll mean the next set of bonds that come up for sale have longer maturities and are of a more risky nature, and they're going to be doing that, and we would expect if you saw that, to see some price volatility in that portion of the fixed income market.

That’s what the Fed programs have been put in place to try to help, and they provide the liquidity in the trading environment to help ease what potentially may be that second derivative risk that comes if redemptions continue or if portfolio managers need to sell the longer duration higher risky assets.

Fourthly from us, those are assets we don’t own. And as we've outlined the strategies that we’re going to be undertaking, we’re looking to have the capital to potentially take advantage of that opportunity.

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Because we don't feel that this is a revisit of the 2008 financial crisis and that monetary and the fiscal policies have reacted more quickly than they did in 2008, we're not overly concerned if this selloff in assets continues. While we may not see a rebound—don't get us wrong there—we think there are several dynamics that favor our portfolios.

Its short average life means that that the time the bonds we own is short. They'll tend to move towards par if nothing else happens, especially given that we're comfortable that the principal and interest will be paid.

And finally, the stabilization of the markets, our current yield-to-worst and durations [may] look very attractive as a low volatility short-term bond fund, that [may] result in capital coming into the fund and allowing us to take advantage of some of what [we believe] are more attractive opportunities, whether they're in the high-quality space where that focus will be more for the New Income Fund, or the high-quality and the credit space, which will be the focus of the Flexible Fixed Income Fund.

That sort of concludes the formal comments and so I'm going to start by going through and reading through some of the questions that have come in prior to the call. Some of you have been presenting, sort of, putting questions to us as we speak. We will be getting to many of those as well. If for some reason, like Ryan said, if for some reason we don't get to the question, our firm will be reaching out to talk to you one on one.

So let me start out with the first question in here. It says, “Would you be able to touch on the potential impact of both the current income portion of the portfolio returns, as well as the underlying price of assets from a possible suspension of mortgage payments for families impacted by the COVID-19 virus?”

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Well, there’s several layers to this to go through. I’ll start with the mortgage pools we own. These are 15-year seasoned mortgage pools issued 2012 to 2014. These are individuals and households with a high credit quality, and a very low loan-to-value. They don’t have much left; maybe they’re on a 50% loan-to-value type of thing. There are several layers to get paid here. The first one is, the servicer of that loan will front the payment; if they feel comfortable, they can receive those payments later on. So that’s the first level.

The second level, it’s a Fannie Mae, it’s a Freddie Mac pool. Fannie Mae and Freddie Mac have said, “We’ll step in behind that and pay if need be.” Both of them have talked about forbearance programs and working with the borrowers to make sure that they can stay current. So we don’t have an uncomfort level, so to speak, that we won’t see the cash flow for principal and interest there.

For the CMOs that are agency-backed, the same applies. It's just a different wrapper, but the same applies. Within a non-agency piece, there are several layers that bring us comfort as to the ability for those to pay us.

The first one is changes to rules for issuers of non-agency securitized product meant that the issuer needed to take a risk retention. They needed to have retained risk either through a subordination, in taking subordinated tranches, or a slice of every tranche. They're required to do that. And that's the servicer. So the first thing is it's in the servicer's best interest to keep that loan paid, and do what needs to be necessary, because it protects their subordinated investment. Because if the problems arise in payments, what cash flows there are are diverted to us because we're the AAA tranche at the very top of the capital structure. What I mean by that is the way the waterfall works, every dollar of interest that comes in goes to pay us first before it pays anybody else. Every dollar of principal that comes in goes to pay us before it pays anybody else. So the servicer is incented to ensure that occurs, and protect their own investment.

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Other elements at play in there is there's a difference in the cost of the interest from all the tranches of the securitization, and the actual loan. That difference is there to help cushion and pay the AAA investor.

Other areas that you will see as a factor is that these are borrowers where we look at the underlying loans and realize we're somewhere in let's say a 45 to 60 LTV on the home. So we realize we've got asset protection underneath it. And then finally, as I have said, some of the policies we've seen coming out of the fiscal bill that was passed of $2 trillion is designed to put cash into households' pockets to help them make those payments. So we feel comfortable when looking at our mortgage holdings, and the agency mortgage holdings, that the suspension shouldn't be a huge problem as to get the timely payment of principal and interest.

So the next question I'm going to turn to Abhi and he's going to answer. Actually, it's the next couple of questions. And let me go ahead and just state the question before Abhi answers it.

How is overall liquidity and bid/ask spreads overall? Also, are most of the holdings self-financing companies, and what percent of the debt matures in the next 12 months?

Abhijeet: Yes, so the liquidity question is a fuzzy question. It's fuzzy today, but it's always been a fuzzy question. So I'm going to answer the question the same way that I would have answered it at the beginning of the year, or last year, when the markets were functioning very smoothly.

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And the answer is that at least for the types of bonds that we own, and the types of bonds that we've looked at, the market is very liquid. Bonds trade, you can typically find a buyer, there's typically sellers out there, but liquidity does not equal getting the price that you want. And so when everything is hunky-dory, and everyone feels great about the world, bond prices tend to move quite smoothly and you can generally sell a bond close to where you had a price the night before.

But when you have a market that is as turbulent as it is today, you can still trade bonds, and there's generally no problem getting into and out of bonds; it's just a question as to what price you are going to get. And you may not like the price, but you will have the liquidity.

The other part of that question was the bid/ask spread. As people might imagine, in markets like this, where there is a lot of volatility, bid/ask spreads tend to widen. And they tend to widen for two reasons. One reason is that to the extent that dealers are willing to buy positions for balance sheet, they need to effectively hedge themselves on their inability to pin down exactly what the price is. And so what will happen is that they will widen out their bid/ask spread to account for the possibility that by the time that they're able to sell it, the price at which they could sell it might have gone down.

The other reason that the bid/ask spread will tend to widen is that even in those situations where dealers are not taking down positions, there are a lot of situations out there where people don't really know what the right price is. And that's particularly true as you get into lower-rated types of bonds, as you get into leveraged loans, and as you get into situations that are more esoteric and less well understood by the broader market.

So last week, for example, we saw some loan and bond situations where, at least based on the quotes that we were seeing from dealers, the bid/ask spread was something like five to ten points. So it's huge. But that's not really a sign of the illiquidity; it's really a sign of people not really being sure of exactly what the right price should be when you're in the midst of a market that's moving around a tremendous amount.

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There's another question here. Is the market cheap where you're buying? It's a good question. And part of the reason why we went through all those slides is that I know it seems on a headline basis that the market seems cheap because it's moved a lot. But at least in our eyes, the market is not on a wholesale basis, that cheap. We're not in a "backup the truck, buy every single thing you can" type of market. And the reason we say that is because the market started from such an elevated level that prices needed to come down a significant amount in order for them to get to a level where the risk/reward made a lot more sense.

And just to give you an example, as we have discussed before in quite a bit of detail in our past commentaries and webcasts, when the market is really expensive, our team is still spending a lot of time digging through the market, looking for bonds that could be interesting, doing the research, and trying to figure out a price at which we might care to own something. And I'm not making this up. There are several situations that we ended up spending time researching, and at the conclusion of our research, because of some combination of the leverage in the business, the liquidity, the lack of good protection for lenders, because of a combination of all those things, we would finish our research and say, "Okay, I know that this loan or bond is trading at par or 1.05 today, but this thing needs to be trading at 0.75 for us to care."

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The reason I go through all that is at this point, the leveraged loan market, as least as of Friday, the leveraged loan market was down [approximately] 20 percent. There were certainly bonds that got to the area of being attractive, and as Tom mentioned, we bought some of those bonds and loans into the Flexible Fixed Income Fund, at least on the credit side. But there were still a lot of loan situations and bond situations that quite frankly were not quite cheap enough, especially when you have to now adjust your underwriting to take into account that companies' cash flows may completely disappear or go negative at least for the next several months, if not longer, because of the shutdown in the consumer economy that we have had in the US and elsewhere around the world.

Thomas: Right. Thanks, Abhi. I will go to the next question here that I'm going to take, that is: What is the likelihood that we are in a period of high inflation, i.e. too much money chasing too few goods.

The classic inflation question, and it's a good question at that. The difficulty is that it's sort of—we're so early in this, and we've never seen this type of Fed involvement in the markets or Fed involvement in the economy; they are basically telling us they will buy whatever is necessary to buy to keep things going. It's a difficult question right now to get a concrete answer.

So we've started to analyze the situation and we started to sit down and think about different permutations of this very active Fed, and at the same time a fiscal policy that's going to inject basically enough money that equals ten percent of GDP, and go how is that going to, longer-term, affect the economy, affect inflation, affect bond prices and such.

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And so you can expect over time to see us communicate, whether it's conference calls, whether it's in commentaries, and in quarterly letters, or in a special commentary, our thoughts about this question as we look at the market, spend some time with it, and start to get a better, more concrete sense of what may occur.

So as an investor, what do I do in the interim until the picture gets a little less cloudy, so to speak? And to us, there is a legitimate concern about how all this may affect the bond market. And so when we think about that today, we go, "Well if I had a bond portfolio with a short duration, if I had a bond portfolio with a high level of yield for that unit of duration, it's going to tend to protect me against the risk of this event occurring, this inflation uptick because I've got too much money chasing too few goods, and it gives me the flexibility as an investor to move as this type of risk works its way through the marketplace."

One of the areas that Abhi and I have already started to have discussions about as we look, and this is how we're going to position and manage this portfolio to the more intermediate and longer term is think about treasury rates. And they very well may continue to be at levels far below inflation going forward, or negative real interest rates. That definitely appears to be what the Fed wants to do. Let's make treasury rates low so we can help the government fund these programs at very low interest rates. And so treasuries aren't going to protect you against inflation. treasuries are, while liquid and high-quality, are also going to tend to have a lot more volatility in them because something that only yields you 30 or 40 basis points has a very long duration. In fact, the duration looks a lot like its maturity.

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So we started to think through how you would construct a portfolio on that position, to have the liquidity that you need, dealing with the dynamics that you may have in the treasury market? So expect us over the coming months, quarters, and such to communicate as well how we're making those adjustments. I wish I had a real great answer as far as "This is what's going to happen," but it's just far too early to tell. But I do think it's a question that a bond investor does need to be seriously thinking, contemplating, and trying to focus on as they think out multiple years, whether it's three, four, or five years.

So the next question—the next several questions—go back to Abhi as well. I'll start with the first one, and then he can read the ones after that. The first one is: Anticipating location in the bond market, how long might an investor thinking about holding the Fund to try and maximize the potential return opportunity?

Abhijeet: Yes, thanks Tom. So I think we answered this question at the very beginning of the call. The short answer is that we generally guide our New Income investors to own that fund for at least a year, because that's one of the objectives that we manage towards. And for Flexible Fixed Income investors, we generally guide those investors to hold the Fund for three years because that's the objective that we manage to for that fund.

There's another question here about our views on duration, the muni market, credit quality, and ABS. I will take those in reverse order.

(01:03:47)

So credit quality and ABS, I can only speak to the bonds that we have owned and that we currently own in the portfolio. We generally think that the credit quality, at least on our bonds, is fine. But keep in mind that our asset-backed securities tend to be at the very top of the capital structure. They tend to be the AAA-rated bonds. As I mentioned in our prepared remarks, the bonds that we own are generally what's able to withstand multiple times the losses that we were seeing during the Great Financial Crisis. So we feel fine about the credit quality of those bonds.

Having said that, we have seen over the past several years, a lot of bonds being created in the asset-backed market that are not that interesting because we just—and this is just our view—we have just had a tough time developing a high-conviction view that those bonds are going to be money-good. I'm referencing some of these more esoteric parts of the asset-backed securities. Again, those are things that we do not own because we have never been able to get comfort there. So we feel very comfortable about the bonds that we own in terms of credit quality.

On the muni market, the only comment that we can make is that we have seen on a headline basis that yields on municipal bonds got relatively high. Our only comment there is that, generally speaking—and this a comment that we have made in the past—muni bonds tend to be very long duration. They tend to not yield all that much. And they tend to not provide a lot of clarity in terms of the actual credit quality of the borrowing municipality. So we have always been hard pressed to find muni bonds as a really attractive investment. I know that a lot of people find benefit there for tax reasons, but leaving tax reasons aside, it's really not made all that sense to us to own muni bonds in terms of credit quality.

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And then lastly on duration—look, we don't really like to make duration bets. I think it's really hard to make duration bets in a high-conviction way, which is why, as we described during our prepared remarks, we manage durations during a risk reward rather than a certain specific duration target. So we're always going to try to manage the duration so that we have protection against a rising rate environment.

When rates are as low as they are today, even for people that do have a strong view that rates are going to go down, I think it's a relevant question to ask how much additional upside you can get, given that we're starting with such a low rate. But again, we're not really a duration-type folks; we think the best way to manage duration is with risk versus reward in mind.

And then there is another question here about our portfolio stress test, and we also had a question that came in during the call about our expected return over the remainder of 2020. So I can't really answer that question. I did make a comment during the prepared remarks when I was discussing the headline yield-to-worst on New Income which showed the yield-to-worst of about four percent versus our portfolio scenario modeling, which would suggest that the expected return over the course of twelve months, assuming that yields do not change and spreads do not change, for New Income would be something closer to the mid-threes versus our four percent yield-to-worst. And that's all before fees.

So I just want to clarify. We're not making a projection about what the returns are going to be for New Income. I'm merely regurgitating for you all the output for our scenario modeling. It's the same scenario modeling that we publish every quarter that shows the projected—I'm sorry—the modeled returns on New Income under different ranges of yield changes. So it's the blue bar chart, if any of you have been longtime listeners and followers. We will publish that same scenario analysis in the next week or two, after the quarter end, and we update all of our Q1 metrics. So you'll see those same numbers there.

(01:08:15)

And then sorry, one other question here and then—two other questions, and then I think we are going to wrap up. So someone during the call had asked a question about the ABS market. The specific question was: Asset-backed securities are highly rated or are they completely comprised of loans from low-credit-score individuals. What are the similarities with subprime CDOs?

I'll make a general comment first. The ABS world today is a lot different than the ABS world that I think the questioner is referencing. The ABS world that is being referenced in that question is the pre-financial crisis world when the ABS market was rife with these CDO structures. And for people who don't recall, prior to the financial crisis, there were a bunch of asset-backed securities out there that were in the form of what is called a CDO. And so what that represented was a securitization of other securitizations. This is a much longer conversation, but the short version is that those CDO structures amounted to buying leverage upon leverage. We started to see a resuscitation of the CDO market in the last couple of years, but it's nowhere near the size that it was prior to the financial crisis.

As it relates to our portfolio specifically, we do not own any CDOs. We do not own leverage upon leverage. We own securitizations that are backed by loans. So that's why we are able to do a loan-level analysis and give you guys the statistics that we quoted during our prepared remarks, whereby, again, our asset-backed securities, we think, can withstand losses that are multiple times what were seen during the Great Financial Crisis, and still be money-good.

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There are certainly loans in the asset-backed world that are backed by low-credit-quality borrowers. But again, not to beat a dead horse, at least for the bonds that we buy, we have always bought them assuming that a good chunk of the borrowers were not going to be able to make their loan payment. And more to the point, and for us this is relevant in the asset-backed securities that we own that are backed by subprime auto bonds, which at this point is only 4.5% of the portfolio, but nevertheless it's a relevant question.

Even in our asset-backed securities that are backed by subprime auto loans, which are all highly-rated, not only have we assumed that a large chunk of the borrowers are not going to repay us, and that was before any of this pandemic situation appeared, but we also assumed that the cars that we would end up repossessing are worth zero. So that's why we feel comfortable saying that we think that our bonds are going to be just fine in terms of ultimately getting our principal back because we have always assumed, and we still do, but we always assumed that we are going to have very severe losses on the underlying loan collateral. And when you make that assumption, at least the bonds that we own end up being fine from a principal standpoint.

And with that said, I think we will turn it over to Ryan to wrap up.

(01:11:57)

Ryan: Thanks Tom and Abhi. We really appreciate the level of detail. We apologize we went a little over, but we hope this added context and detail was useful.

Just a few last things: I want to re-emphasize what Abhi mentioned, that please do not construe any of our comments in terms of the statistics of the portfolios, or various stress tests, or portfolio scenarios to be a projection of the Fund's returns. We absolutely are not making any projection in terms of the Fund's returns either over the short term or the long term.

Secondly, I hope our key points that I mention at on the onset of the executive summary came through. We do not believe there have been any permanent impairments of capital, just a lot of very interesting mark-to-markets. We think it's a very interesting environment, as Abhi has mentioned in the AAA and AA parts of the market, and we look forward to more opportunities and volatility in the lower part of the market. And lastly, [we believe],we are prepared for what's next. And we hope that our clients appreciate the detail that Tom and Abhi provided in terms of the positioning and in terms of treasury liquidity, etc.

So with that, we know we didn't answer everyone's questions. If we missed your question, again, please feel free to reach out to us at crm@fpa.com or your representative. We really appreciate everyone's time. Again, we apologize for going a little over. Again, thank you again for listening to this first quarter special webcast, and we would now like to turn it back 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 that will be available on our website, along with important disclosures that should be read in conjunction with the playback, within a few days at FPA.com. We urge you to visit the website for additional information about the Fund, such as a complete portfolio holdings, historical returns, and after-tax returns.

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

(01:14:04)

Please visit FPA.com for future webcast information, including replays. 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 that 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 statistics have been obtained from sources believed to be reliable, but the accuracy and completeness cannot be guaranteed.

Portfolio composure will change due to ongoing management of the fund. References to individual securities or sectors should not be construed as recommendations to purchase or sell such securities, and investment 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 security or sector examples discussed. **Past performance is not guaranteed, nor indicative, of future results.** Current performance may be higher or lower than performance mentioned.

FPA New Income, Inc. net expense ratio, at the most recent prospectus, is 0.50%. FPA Flexible Income Fund's net expense ratio, as of most recent prospectus, is 0.39%.[15]

You should consider each Fund's investment objectives, risks and charges, and expenses carefully before you invest.

(01:15:58)

The prospectus details each fund's objectives and policies, charges, and other matters of interest to the prospective investor. Please read the prospectus carefully before investing. The

[15] **For FPA New Income, Inc. ("FPNIX"),** the Total Annual Fund Operating Expenses before reimbursement is 0.57% (as of most recent prospectus). The Advisor has contractually agreed to reimburse the FPNIX for Total Annual Fund Operating Expenses in excess of 0.50% of the average net assets of FPNIX (excluding interest, taxes, brokerage fees and commissions payable by FPNIX in connection with the purchase or sale of portfolio securities, and extraordinary expenses, including litigation expenses not incurred in FPNIX's ordinary course of business) through January 31, 2021. This agreement may only be terminated earlier by FPNIX's Board of Directors (the "Board") or upon termination of the Advisory Agreement.

For **FPA Flexible Fixed Income Fund ("FPFIX"),** the Total Annual Fund Operating Expenses before reimbursement is 0.97% (as of most recent prospectus). The Advisor has contractually agreed to reimburse FPFIX for Total Annual Fund Operating Expenses in excess of 0.39% of the average net assets of FPFIX (excluding interest, taxes, brokerage fees and commissions payable by FPFIX in connection with the purchase or sale of portfolio securities, and extraordinary expenses, including litigation expenses not incurred in FPFIX's ordinary course of business) through December 31, 2020. This agreement may only be terminated earlier by FPFIX's Board of Directors (the "Board") or upon termination of the Advisory Agreement.

prospectus and current month-end performance data, which may be higher or lower than performance data quoted for each fund, 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.

Investment, including investments in mutual funds, carries risk, and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issues, political or regulatory markets, or economic developments.

Please visit www.fpa.com for principal risks of investment in the funds. Please read the prospectus carefully before investing, as it explains the risk associated with investing in fixed-income mutual funds.

The FPA funds are offered by UMB Distribution Services.

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

(01:17:11)

[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/request-funds-literature

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