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Mark Hancock: All right, and now for our second session of the day, and I know some people are still getting coffees and restrooms, but in the interests of time, I think we're going to commence.

The FPA New Income Fund has been around since 1984 and it's my great pleasure to bring on Tom Atteberry and Abhi Patwardhan who run the Fund, the FPA New Income. Tom, Abhi.

Abhijeet Patwardhan: Thank you, Mark. All of our best stuff is in the first two slides so whoever's not here yet is really missing out.

Well, welcome. Thank you for joining us today. We're going to try to cover a few topics this morning. First, we'll discuss our approach to investing in fixed income. Then we'll share our thoughts on some of the dangers that we see in the high-quality bond market and the credit market. And then finally, we'll wrap up with some macroeconomic commentary and the case for New Income, which is a discussion of why we think it makes a lot of sense to own New Income in today's market conditions.

So let's get started. FPA New Income is actually somewhat of a rare breed. It is certainly a fixed income mutual fund but it is not a relative value fund. So what that means is that we don't try to build a portfolio that looks like an index and then try to do a little bit better than that index. We also don’t make speculative bets, so we’re not going to try to make a bet that interest rates are going to rise or fall. Rather, we’re trying to deliver positive absolute returns, full stop.

And in doing that, we have two objectives. The first and the short-term is that we’re trying to have a positive absolute return on a 12-month basis. And the secondly, over a longer time horizon, we’re trying to deliver a positive real return of CPI plus 100 basis points over a five-year period. And in pursuit of those two objectives, we think we’ve built a portfolio that has a pretty compelling value proposition and we outline that in this table here.

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So what we've shown here is a comparison of the yield-to-worst and effective duration for FPA New Income in comparison to the Bloomberg Barclays US Aggregate Bond Index and the Aggregate 1-3 Year Index. And on the right-hand column, we've shown the ratio of the yield-to-worst to duration, and that ratio is kind of a rough barometer of how much protection you have against rising interest rates. So a ratio of 1 means that you're probably going to have a positive return over 12 months if yields rise by 100 basis points, and a larger ratio is generally better because you can withstand a bigger increase in yields and still expect to have a positive total return over 12 months.

And there are a couple of things that stand out on this table. First is that as of the end of the quarter, FPA New Income had a higher yield than the Aggregate Bond Index, but we accomplished that while taking on 25% of the duration risk. The other thing that stands out is that we also have a higher yield than the 1-3 Year Index, but we still have a lower duration than the 1-3 Year Index.

What's not shown on this table is that given the duration of our Fund, it’s natural to compare FPA New Income to the Morningstar short-term bond category, and if you did that comparison, what you would find is that in comparison to the typical short-term bond fund, we also have a higher yield than that typical fund and we also have a lower duration than that typical fund. But what's less obvious is that we’re doing that with less credit risk. So the typical short-term bond fund has about 20% of its assets in investments that are rated less than single A, whereas we only have about 10% of our assets that are in investments rated less than single A.

So we think we’ve created this portfolio that has a pretty attractive return profile, and the results bear that out. What you can see is that over the past year and a half, as interest rates have been rising, FPA New

Income has outperformed not only the Aggregate Bond Index but also the 1-3 Year Index, and that's carried through in our three-year performance as well.

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And it turns out that actually, over the past four years, it’s been a really good test case for fixed income. Since 2014, the bond market has experienced a number of disruptions. I kind of alluded to this already but in the upper right here or upper left from your perspective, you can see that after a period of being in a historically low interest rate environment for call it the past eight years, interest rates are finally now starting to increase, and that's been happening over the past 18 months or so. And at the same time, shown in that kind of dotted line which I guess looks a little gray, is that the shape of the yield curve has also been changing, having become much flatter over the past several months.

I’m sure many of you are aware that in 2015-2016, the entire energy complex sold off, oil prices, commodity prices collapsed, and spreads on the high yield bond index and the investment grade bond index ended up blowing out, as you can see up here. And then more recently, volatility has picked up again, many of you probably saw this in equity markets but it played fixed income markets as well. And through it all, FPA

New Income has had positive annual returns, and in fact 2017 just completed our 33rd consecutive year of being positive every single year without a negative year.

But when you take a deeper look beyond that, we actually think our returns have been pretty attractive, and we show that here in this chart.

So if you look on a deeper level, based on a combination of a compelling risk to reward ratio, measured as a Sharpe or Sortino ratio greater than one, a low correlation to equities, a low correlation to high yield, and a compelling drawdown, FPA New Income is the only one that checks all the boxes. The only other category that comes close when you compare us to the Aggregate Bond Index, the 1-3 Year Index, short-term bond funds, intermediate bond funds and nontraditional bond funds is the 1-3 Year Aggregate Index, and we actually had an annual return that was twice that of the 1-3 Year Index.

So how do we do this? There's really no rocket science to it. There's no magic. It’s pure and simple value investing.

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And as we think about value investing in the context of fixed income, we really think about it from two respects. One, we want to make sure that we’re getting paid to take on interest rate risk, which is duration risk. Ultimately, that boils down to are you getting paid enough for short-term mark-to-market volatility. And two, we want to get paid for the possibility of not getting paid back. This is principal impairment risk or credit risk.

So as it relates to duration risk, we employ a duration stress test, and what that test tries to do is identify bonds that we think will have a positive return over 12 months if you assume that the yield on the bond increases by 100 basis points over the 12-month period. And we've shown an example of that here in this chart.

So these blue bars represent the yield—sorry, these blue bars represent the treasury yield curve as of the end of the quarter, and the gray bars represent the result of that test. So as an example, if you were to buy the five-year treasury at a 2.57% yield and sell it a year later at a 3.57% yield, you would lose about 1.25% over a 12-month period. So a bond like that is not really a candidate for our portfolio.

On the other hand, if you were to buy the three-year treasury at a 2.38% yield and sell it a year later at a 3.38% yield, you would expect to have a positive total return of about 50 basis points. So that bond would be a candidate for our portfolio.

And all things being equal, we're trying to buy the longest bond that will satisfy that positive return test. And so as you can tell by this chart, right now our sweet spot is kind of around a three-year maturity. If you went back maybe a year or two ago, our sweet spot would have been close to around a two-year maturity. So what that means is that our duration target, if you will, is really dynamic and adjusts based on the market opportunity set, and you can see that here.

What we've done on this chart is we've applied that same total return math to the Barclays Aggregate Bond Index, and we've shown those total returns in the blue bars. And in the boxes, we've shown the duration of the FPA New Income throughout the years.

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So on the left-hand side for example, in the late Eighties and early Nineties, you could buy the index, yields could increase by 100 basis points, and you would still expect to make a positive 3% to 4% total return because you're getting compensated for duration risk. Interest rates were much higher back then. And as a result, our strategy had a duration of about four years.

If you look to today, on the far right-hand side, what you'll see is that because we've been in this historically low interest rate environment, the index, or anything that looks like it, is set up to lose about 3% to 4% over the course of a year if interest rates rise. And so accordingly, we have a much shorter duration of about 1.5 to 1.6 years.

And so using this approach, we've built a portfolio today that actually has, we think, a lot of insulation against rising yields, and that could come from a combination of rising base interest rates or rising credit spreads. What this chart shows is the expected total return on FPA New Income before fees over a 12-month period based on different assumptions about increases in yield. So I've been talking about this base case here of about 100 basis points. So if yields rose by 100 basis points over the next 12 months, we expect that FPA New Income will generate a total return before fees of approximately 2.25%. And on the right-hand side, because we're still positive at 200 basis points, the portfolio should be able to withstand an increase in yields of something greater than 200 basis points, and we would still expect it to have a positive total return.

So the second piece of our approach to fixed income investing is that we want to get paid for the possibility of not getting paid back. And this is where we think credit investors in particular go wrong. And where they go wrong is that principal impairments or principal losses are an absolute phenomenon, not a relative phenomenon. And that's why we put so much emphasis on buying bonds at the right yield rather than the right spread, because yield is what compensates you for cash-on-cash returns; spread does not. And so our process starts with the recognition that as bond investors, we have limited upside, and we illustrate that with this chart at the top. And so I use high yield just an example.

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If you invest in a high yield bond and the business you're investing in does really well, that's great, but we don't get any of the upside barring any short-term mark-to-market gains. If the business will do really well, we'll be paid par and sent on our merry way. On the other hand, if the business is not doing well, we're exposed to the possibility of getting less than 100 cents on the dollar. And so because of this asymmetric return profile, we tend to focus a lot of our energy on downside risk and understanding how we can lose money. We really want to understand what our collateral is worth and how it can be taken away from us, which means that if you talk to anyone on our team, we're actually a pretty paranoid lot.

In the high yield world, a lot of the analysis boils down to understanding how businesses make money and the stickiness of that moneymaking ability. We also tend to spend a lot of time on structure and understanding alignment of interest, because it’s certainly possible that businesses, people, assets have the ability to pay you back but they don’t want to, and so we really try to understand that risk as well.

And ultimately, what we try to do is we try to boil all of our investments down into two metrics—a loan-to-value ratio and a return profile. And by putting every investment in that context or that framework, we are able to create comparability across a number of asset classes so that we can think about high yield bank debt, commercial mortgage-backed, mortgages, etc. in similar terms and understand risk/reward across the entire market.

So that's how we find bonds. Where do we find them? Well, we look everywhere. Because we’re not tracking an index, we’re not trying to follow a benchmark, we have the luxury of owning only bonds that make sense to us. And if we can’t find anything that makes sense, we’re happy to own something else or to own cash instead. And so what we do is we look across the structured product market, we look across markets for corporate finance, and we look in the markets for government securities to try to find bonds that meet our objectives, as I discussed earlier.

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And what we've done is we've created a team that has a built-in feedback mechanism so we’re constantly comparing investments across sectors to really try to optimize the use of our capital. And I’ll just quickly give a nod to our team who’s sitting over here on the right-hand side. They're really the ones that do all the scouring, and without them we wouldn’t be able to have the flexibility that we do.

What this all means is that our exposures can and will change over time, and we show that here. This is a historical chart showing our sector allocations over time, and really I shouldn’t say allocations, it’s more exposures, because we invest on a bottoms-up basis. So we’re not sitting at the top saying that we think a certain market is expensive, we want to own more or less of it, but rather what you see here is the fruit of us having made hundreds and hundreds of individual investment bond decisions.

And what you'll notice, for example, is that in the early or mid-2000s, we tended to have a lot more exposure to agency mortgage-backed securities. And what ended up happening is that as we embarked on this historically low interest rate environment, those securities became too expensive for us, and so we gravitated towards other areas like commercial mortgage-backed securities and asset-backed securities.

So as we build our portfolio out, we tend to think about it in two parts. As a guideline constraint, we have to have at least 75% of our assets in investments that are rated single A and higher, so we refer to that as the high-quality portion of our portfolio. And on the flipside, we can have anywhere from 0% to 25% of our investments in investments that are rated BBB and lower. We refer to that as credit. So we’ll take those two parts of the market in turn, high-quality bonds and then credit.

Now before we talk about high-quality bonds, I have to admit there's a bit of a discrepancy in how we think about the high-quality bond market. We think about high-quality bonds as anything rated single A and higher. The rest of the world tends to think about high-quality as investment grade, which includes a BBB slice. Now I’ll submit that I think that BBB slice is really important because there's a lot of danger there, and we would encourage people to think about their investment grade exposure and gravitate towards bonds whose ratings start with an A.

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So first off, we show the yield and spread on the Aggregate Bond Index, and what you'll notice on the far right-hand side is that yields are a little bit higher, but that's because treasury rates are higher. Spreads are basically at historically low levels. So you're being paid a historically low amount to own something other than a treasury bond, which should concern everyone.

Now there's a danger hiding in the investment grade bond universe. This shows the exposure—sorry, this shows the composition of the investment grade corporate bond market, and what you'll notice is that BBB bonds represent a historically high amount of the investment grade corporate bond index at about 50% of the index, and that's been growing by a staggering amount.

And this matters because everyone thinks that BBB is investment grade so it’s fine, but it may actually not be fine. This shows that leverage on BBB borrowers has grown very significantly, increasing by over 50% over the last few years. And so with that high leverage, it kind of calls into question whether these companies really should be BBB, and the data suggests that that might not actually be the case. Based on leverage, a lot of BBB borrowers are probably better rated as high yield borrowers, so they should be double B or single B. And really what this chart is showing is that these companies got a BBB rating because of low interest coverage—or sorry, high interest coverage—but that high interest coverage ratio is really a function of us being in a historically low interest rate environment. So if interest rates are rising and these companies have to refinance their debt at higher costs of debt, the expectation is that interest coverage ratios are going to go down, and then you really have to ask yourselves whether those BBB companies that you own are still going to be BBB, or are they going to be something else.

So with this higher credit risk, you would at least expect or maybe hope that you're getting paid more to take on that credit risk, but that would be wrong. The chart on the left shows the spread on the BBB corporate bond index and, like everything else, you'll see on the right that it's at a historically low level.

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On the right-hand side, we show the spread per unit of leverage. So this is kind of a way of measuring risk per unit or return per unit of risk. And despite the higher leverage, the return per unit of risk is basically about as low as it's ever been.

And here's where the rubber meets the road, because if you own the index or anything that looks like the index, you have exposure to this risk. The chart on the left shows that corporates have been a growing percentage of the Aggregate Bond Index and because of that, on the right, the exposure to BBB bonds in the index has now grown quite significantly at about 13%, whereas about ten years ago it was at about 8%. And then on top of all that, the duration on the Aggregate Bond Index is as high as it's ever been, again owing to a low interest rate environment.

So when we take the combination of those two things, deteriorating credit quality because of BBB exposure and historically high duration, that means that the index has historically high mark-to-market risk because of the prospect of widening spreads and rising interest rates. It's a bad combination and it's a recipe for poor returns going forward, and we think that people should really ask themselves whether they're getting paid for that ride. We don't think they are, and that's part of the reason why we don't like to track benchmarks.

On the left, we show the composition of the Aggregate Bond Index; on the right, we show the composition of our high-quality holdings. So this is that 75% portion of our portfolio. Two things that will stand out. One, we own things that are very different than what's in the index. Two, we have a de minimis exposure to corporates, and I'll note that we have zero exposure to BBB bonds in our holdings. And yet, what we've been able to do is we've been able to cobble together a high-quality portfolio that has a similar yield profile to the Aggregate Bond Index while taking on a fraction of the duration risk, and while also being better quality. So let's show an example of how we've been able to do that.

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We own asset-backed securities that are backed by subprime auto loans. Now, before you cringe—everyone usually cringes when we mention the word “subprime”—let me explain why we found these attractive. This chart shows how consumers have prioritized their consumer debt obligations over the years. I’ll just highlight two borrowers here, this kind of mustard looking borrower in the middle represents the prioritization of mortgage payments, and the blue borrower represents the prioritization of auto loan payments. And the thing that stands out here is that during the financial crisis, as I’m sure you all well aware of, people deprioritized their mortgage payments and yet they kind of consistently paid their auto loan obligations. And the reason that that's true it because of the heading of the slide. You can’t drive your house to work but you can live in your car. If you don’t make your car payments, you don’t have a car to get to work. If you're not going to work, you're not making money. If you're not making money, you're not paying anything really. And so a car becomes a critical asset, and history suggests that there is a demonstrated willingness to pay.

So one of the first questions we get is, well, it’s subprime auto, isn’t that the same as those awful subprime mortgage bonds that kind of wiped everyone out during the mortgage crisis. And we think the answer is no. what we show on the top is historical average defaults from 1993 to 2015 on subprime residential mortgage-backed securities and option on residential mortgage-backed securities. And what you'll see in the circled area is that average annual defaults on those types of bonds were somewhere between 9.5% to 20% per year, that's kind of what everyone's understanding is.

On the other hand, on the bottom, we show the same data for auto loan asset-backed securities, which had an average annual default of about 0.1%. Now there's a caveat here which is that that category includes bonds that are backed by loans to prime-quality borrowers, but if you assume that the prime-quality borrowers had zero losses over this time period, that still only implies losses for the subprime borrowers of 0.4%. So it's basically nothing compared to what happened to mortgage bonds.

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And to that point, on the far right-hand side, what you can see is the number of upgrades and downgrades of subprime auto asset-backed securities for all the securities that Standard & Poor's has rated over the years since 2004. And what you'll notice on the right-hand side is even during the financial crisis, none of these bonds ever got downgraded.

Now, we're never the guys to tout ratings, we actually don't have a lot of confidence in the rating methodology, but this just kind of gives you a directional datapoint as to the quality of these bonds versus mortgage-backed securities.

Another question we get is, well, it's subprime. Isn't this going to create Mortgage Crisis 2.0? We don't think so, and there's two reasons for that. One is that the scale of the problem is much, much smaller. This line shows total outstanding balances of subprime and subprime-related mortgage-backed securities versus total outstanding of subprime auto asset-backed securities. At their peak, subprime mortgage and all mortgage-backed securities had an outstanding balance of about $1.8 trillion. In comparison, the size of the auto asset-backed universe, the subprime auto asset-backed universe, is about $40 billion. So it's about 2% of the size. So just the size of the problem that could propagate throughout the economy is much, much smaller.

The second reason we don't think it's going to lead to another crisis is because of the wealth effect. So really what happened during the mortgage crisis is that because people had a large portion or all, if not more than all, of their net worth tied up their home, when their home value went down, they essentially got wiped out. And as you all know, that has a huge impact on consumption, residential spending, those are all big drivers of the US economy, and then it has a number of second and third order effects on economic growth.

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The same situation just doesn't exist in subprime auto loans. So the typical loan size is $10,000 to $20,000, which means that the typical borrower probably has $3,000 to $5,000 tied up in their car of cash equity. So if their car gets repossessed, it's bad, it's no doubt a harmful experience for the people who have taken out these loans, but it's not wiping them out completely and so it just does not have the same carryover effect that it does on broader macroeconomic trends.

So yes, another question that we get is, well, haven't the losses on these loans been going up and deteriorating in a bad way? And the answer is absolutely yes, they are. And in fact, this is now, I think our third or fourth consecutive investor day conference of us speaking about bad underwriting trends in subprime auto. But, it's important not to think about these things in a vacuum. Price is important, and structure is a very important component of price, because structure basically allows you to buy assets at a discount. The reason the subprime mortgages have such a lousy outcome is that they were based on an assumption—they were based on bad assumptions and they were based on bad structure. That's not the case with subprime auto asset-backed securities.

And so what we've shown here is an example of a typical securitization, and on the left-hand side you can see the various tranches, then you've got the balance of the bonds, the rating, the coupon, weighted average life, etc. At the bottom, what you'll see is that the total bond balance is about a billion dollars, and there's about $1.2 billion worth of actual loans securitizing this securitization, so that acts as a collateral.

And the way these securitizations work is that every dollar of principal payments that comes in from the underlying loans goes first to pay the bond at the top until it's paid off. And then once that bond is paid off, it pays the next bond and then it goes on and pays the next bond, and so on and so forth. To the extent that there are losses on the underlying loans, those losses get absorbed first by the excess of the balance of the collateral over the total bond. So it's about $100 million worth of overcollateralization as they call it. And then if that overcollateralization gets wiped out, losses get absorbed by the bottommost tranche and then it kind of moves up the stack from there.

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So to give you a sense of the amount of protection that's built in to the structure, what we've shown here is the breakeven loss that the structure can withstand for each particular bond. So what this tells you, for example, is that for this B tranche, which is AA rated, you could wipe out about 55% of the underlying loan balance before you actually incur a single dollar of principal loss on that B tranche.

And just to give you some context, this particular issuer has been around for about 15 or 20 years. So we spent a lot of time going through the history of loan losses for this issuer, and we found that the worst losses that this issuer had ever experienced was about 24% which happened, as you might imagine, during the financial crisis. And so as a multiple of those worst losses, this bond can withstand about 2.3 times more in losses than whatever the worst experience was for this particular issuer.

Now I'll note that this gray area highlights the sorts of bonds that we've typically looked at. We've never bought a bond that's rated below single A, and the reason is because, if we're being honest, we're only getting paid 3-5% to own some of these lower-rated bonds and frankly, it's just not that enough that we want to lose sleep at night worrying about not getting our money paid back. An so we've tended to gravitate towards bonds that are AAA and AA rated. On occasion, we've owned single A rated bonds. And on the whole, on a weighted average basis, our bonds can withstand losses that are 2.2 times greater than what the worst loss experience has ever been for our issuers.

But the neat thing about these structures is because of the way they're organized, is that over time, these structures tend to get better. That's why you tend to see bonds getting upgraded and the bonds actually become safer over time, which means that from here going forward, on average, you could actually wipe out about 61% of the underlying loan collateral behind our bonds, and our bonds would still be fine.

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So what that means is that from our perspective, we don’t think that the risk in these bonds is that we don’t get our money back. Actually, we think that the risk in these bonds is that there is mark-to-market risk, in the sense that people could have the same doubts about subprime that we've heard before, and then you get this kind of panic selling in the market and you get back mark-to-market exposure.

Our bonds are relatively short. We have an average duration of about 1.4 years on our subprime auto bonds. And so they're not that sensitive to mark-to-market movement, but we’ve created this chart to give you a sense of what that mark-to-market exposure might look like. And on the bottom, what we've shown is different assumptions about increases in spread and so today on the left-hand side, you can see our bonds are priced at about a 3% yield. If spreads increase by 500 basis points, our bonds would be priced to about an 8% yield, and that 500 basis point increase kind of replicates where these sorts of bonds were priced just after the financial crisis.

And so under that 500 basis point spread widening scenario, you can see in the blue bars that over the course of six months, we would have a total return over six months of about negative 3%. But because of the nature of the bonds and because of the shortness of our bonds, over the course of 12 months, shown by the green bar, as you can see this little tiny green area peeking its head out, we essentially break even over a 12-month period.

So then it gets to the last question of, well, why do you even own these? And the reason is that because historically it’s been one of the better things that we can do with our capital. And what we've shown in these lines here is the difference in spread between AAA rated—sorry, these are actually AA rated subprime auto bonds versus AAA rated equipment asset-backed securities or AAA rated auto bonds backed by prime-quality collateral. And if you look back in the history, what you can see is that subprime auto bonds have historically been quite a bit more attractive than these other alternatives, and we use these two alternatives as a proxy for other things that we could do with our money.

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But over time, because the lines are going down, that means that these subprime auto bonds have actually become relatively less attractive. And so in accordance, the red bars show that we've actually been reducing our exposure to subprime auto bonds, and this is actually kind of a neat example of our opportunistic approach to investing. Again, we don't have to track an index so we have the luxury of buying whatever makes sense. So we're not really wedded to any particular asset classes. In fact, we're not really wedded to anything. If something's not making sense for us, we're happy to move on, which I'm sure gives a lot of comfort to our significant others.

So now we'll move on to credit markets. Now, I'll note that when we think about credit, we don't limit ourselves to the high yield universe. We think about credit as anything rated BBB and lower. So that could include lower-rated tranches of commercial mortgage-backed securities, it could include lower-rated municipal bonds, etc. But we're going to focus our conversation today on the high yield and bank debt market, because even though we think that in aggregate, credit markets are expensive, we've seen the most concerning trends in the high yield and bank debt market.

So this chart shows that leverage for high yield borrowers has been going up. And at the same time, coverage ratios have been basically the same, but it’s kind of interesting because on the left-hand side where you can see that aggregate dollars of interest expense spent by high yield borrowers has been going down. And again, this is a function of us having been in a historically low interest rate environment for a number of years now.

But it’s just natural to ask the question of when these borrowers have to refinance their debt in a rising rate environment, what's going to happen to their ability to service their debt?

Well, the expectation is that for a lot of them, barring some meaningful improvement in operating results, are going to experience deteriorating coverage ratios. And for a lot of borrowers, that's going to call into question the sustainability of their balance sheet and could lead to further defaults in the future.

What we show here is that purchase prices for leveraged buyouts has been going up, and the reason that this is important is because as an investor in debt-laden companies, it's important to think about your margin of safety which, when you're investing in a high yield or bank debt, means that you have to think about your equity cushion.

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But as a prudent investor in debt, to us, it does not make a lot of sense to look at today’s transaction multiples as a barometer of where your equity cushion is, because as Steve was talking about this morning, it seems like equity valuations are pretty elevated and when market valuations start to rationalize, the business is not going to be the same or is not going to have the same enterprise value today—or in the future that it does today. And so consequently, the equity cushion that you think you have now is going to end up proving illusory.

There was a similar chart this morning. This is a graph that I’m sure many of you have seen that shows that quality on bank debt and high yield bonds has been deteriorating and is at the lowest level that it’s been at in many years.

But what does this really mean? Well, here’s an example of what bad structure means, and this is why we spend a lot of time digging into structure. And I’ll just focus on the right-hand side for a second. What you can see here is for bank debt issuance, the dark blue bar shows what the marketed leverage is. So this is a leverage that the company tells you you're getting when you buy their bank debt, and for the last three months, it's kind of averaged around 5.75 times. However, the devil in the detail is that that marketed leverage is based on an adjusted EBITDA number. So that includes a bunch of adjustments for things that have not actually happened yet like expected revenue synergies, expected cost savings. And in today's market, those adjustments can be upwards of 30% of EBITDA. So if you take out those adjustments, your leverage is actually about 1.7 times higher, which gets you to the lighter blue bar in the middle.

But then on top of that, many of these bond indentures and bank indentures give the company the flexibility to have this free and clear accordion as they call it. They have the ability to take on additional debt without any limitation. There's no leverage test on that. There's no incurrence test on that. And so as a result, rather than being at the marketed 5.75 times leverage, your exposure actually looks more like 8.75 times.

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And this is where we have a lot of difficulty in the high yield market today, which is that debt is supposed to protect lenders from bad things happening. That's why debt yields less than equities or other investments.

But when lenders and investors give borrowers additional flexibility, that's fine as long as you're getting paid for that flexibility because you're effectively selling optionality to the company. And the problem in today’s market is you're not getting paid for that optionality, which I’ll show you in a second.

Now all of these bad trends might be fine if you had an expectation that companies could grow into their balance sheets and valuations, but the headline data suggests that that's not the case. In the middle, what you can see is that about a quarter of high yield borrowers have had negative growth over the past five years. So we look at things on a case-by-case basis but the overall trend is concerning.

And this is not a small problem. In fact, it’s a pretty big problem. The gist of these charts is that because the amount of issuance in the bank debt market of covenant-light debt has been so extensive. Now on the upper right, the majority of the bank debt market is covenant-light, and because the majority of the high yield leverage finance market is bank debt, that means that basically most of the market has very weak protections. And this is a problem if you’re invested in a credit strategy that is always on, that always has to be fully invested, because it’s really hard to avoid having this exposure to weak protections.

We think that it makes a lot more sense to have a flexible approach to credit investment, which means you own credit when it makes sense and when you're getting paid for it. And when it’s not, you should gravitate towards higher-quality things or just, frankly, own cash instead,

So I talked about quality, which we think is not very good and now as it relates to valuation, we think the market is expensive to boot. In fact, the market is really expensive. On a headline basis, you can see that here where we showed the yield and spread on the high yield index excluding energy. And we exclude energy because energy tends to be volatile, so it kind of masks what's happening in the core of the market.

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And what you'll notice is that spreads and yields are kind of at historically low levels, and that's even despite treasury yields having been higher over the past several months. So this is hardly what we would consider high yield.

A similar chart to what we showed before but instead for the high yield market, we’re showing spread per unit of leverage and again, this is kind of a measure of the amount of return you're getting per unit of risk. Now, keep in mind I just explained to you that leverage is up pretty dramatically, and I just explained to you that the underlying structure is pretty lousy, and yet the amount of return that you're getting per unit of risk is about as low as it’s ever been.

And this chart I think really neatly summarizes our concerns. So in the blue bars, what we show here is the proportion of the high yield market that's trading at a spread of less than 250 basis points. And the black line shows the forward return on the index. And today, the market has about roughly 30-40% of its composition trading in a spread of less than 250 basis points. Historically, the only precedent for that was prior to the financial crisis, and we all know how that turned out. In fact, historically, even when the composition that's less than 250 basis points has been even half of what it is today, the results have not been that good, and you can see that by the negative performance in the subsequent years. So we recommend caution, and we've actually been doing more than that. We've been reducing our exposure to credit, which you can see here in the blue line, our credit exposure is now about 10% today versus a potential capacity of about 25%. And barring any dramatic turn in the market, we expect our exposure to keep going down over time.

What we do own we think is a lot more attractive than what you would find in the index. So we have the index statistics on the left. We have the statistics for our credit exposure on the right. What you will notice is our corporate credit exposure is about 60% of our total exposure, and noncore credit, so it’s a variety of forms of structured product representing about 40% of our exposure. And in aggregate, our credit holdings have a yield-to-worst of about 8.25% versus about 6% for the index, and we have much lower duration, which means that we have a lot more protection against bad mark-to-market movements, particularly the prospect of widening spreads.

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We also believe that our investments have better structural features and better create values, which means a better risk/reward profile and we’ll show you a couple of examples now to demonstrate that.

So the first example is PHI, and we think that this is a really good example of our general approach to investing, which is that we oftentimes will run towards scary situations rather than running away from them because a lot of times, that's where you can find good value.

We started looking at this investment in 2016, again when the market was kind of in the throes of the energy crisis, and you'll note that PHI stands for Petroleum Helicopter International. So you would think, based on the name, that the company is an energy company, which it is, kind of. About 44% of its EBITDA comes from using its helicopter fleet to ferry workers to and from offshore oil and gas rigs. But 55% of its EBITDA comes from using its helicopter fleet to provide emergency medical services. So if you've been in a car accident or whatever and you need to get to hospital, these are the sorts of guys that that will help you out.

To us, this was a classic typical baby out with the bathwater type of situation where the company's bonds were trading in line with the energy market, even though that's not wholly where the exposure is.

So when we did the work on the company's 5.75% senior notes, we thought that the bonds were pretty well-covered. There were two helicopter businesses that we thought were pretty valuable, particularly the Air Medical business, which is in the midst of a consolidating industry so It's kind of an attractive asset to own. The company also owns the vast majority of its helicopter fleet, which had a book value of about a billion dollars, and we ascribed in a very stressed scenario a value of about $585 million. On top of that, the company had a large cash balance which, combined with the moderate kind of de minimis cash burn as a result of a weak energy business, meant that there was a relatively low likelihood of default over the next coming years.

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And in terms of structure, we felt the structure was attractive because there was limited ability for value to leak away from us, and there was a requirement that the company pay down debt with asset sale proceeds. So we thought we had a good ability to pay, and in terms of willingness to pay, on top of that, the CEO controls the equity and owns about 20% of the equity. So we liked our margin of safety here. The bottom chart shows our create value. In the normal course, we thought we'd created the business at about a 72% loan to value, and in stress scenarios where we only assigned value to the helicopters and gave no value to the operating businesses, we thought we were covered at about 100 cents on the dollar.

But again, to us investing is about patience and discipline, so when we did the work, the bonds were not quite trading at a yield profile that made sense to us given the prospect of losing money, and we also wanted to make sure that we were getting paid for the ride because we expected the bonds to be volatile. So we did the research, we filed it away in 2016, and then we waited until 2017 until we made our first investment. And then we ended up waiting patiently again for another few months until earlier this year when we bought some more.

And while we were waiting, I actually bought the investment team copies of one of my favorite investment books. And then I'll just quickly wrap up with another example.

So this is in the bank debt market. This is an investment in a company called Xplornet, which provides broadband internet service in rural Canada. It's kind of a neat market because it's rural Canada and so there's not a lot of cable and fiber broadband going to homes and businesses. So the company has a huge growth opportunity. It's Canada, so literally there's a lot of white space. And we thought we'd create the business cheaply at about 3 times EBITDA, and especially when you look in comparison to the broader aggregate bank debt market index, we bought the bonds at about a 7% yield whereas the index was trading at about a 6% yield. We had a lower leverage point. We had full covenant packages. And so to us, this represented great risk/reward.

And with that, I'll turn it over to Tom for some macroeconomic commentary and some thoughts on things that keep us up at night.

(00:40:18)

(00:00:00)

Thomas Atteberry: —to the ultimate of what keeps me up awake at night, and so I'm going to go through these—I'll do just one. One thing, if I can get this to go backwards, this is one macro slide and I'm going to move on. That blue line represents the annual change of 25- to 54-year-olds divided by the annual change in the US population. And this is 1960. It goes straight up until about 1985. This is CPI; it goes up with it. Then in 1985, it goes down and lo and behold, it starts to go up again.

Now you can do a lot of demographic work if you wish but I'll make this very simple for you. I got out of college here. I got married here. My kids became 25-year-olds here. This is the baby boomers' kids. That's why I put up here "Baby Boomers Revisited"; it's their children. That going forward I think is going to be one of the biggest drivers this economy is going to have to deal with. One, they're going to have households that they're going to create and buy stuff with—housing problem, other hard goods. And me, maybe somebody in this audience, is going to retire. The good news is, by the way, both my children are employed and they're off my payroll. I'm a real happy guy.

I'm going to move through all this because I want to get to what really keeps me awake at night, and I'm just going to start with we started this idea of doing big deficit spending to make the economy grow here, when debt, total debt in this country to GDP was about 150%. That's all the debt—private, company, government. We're here. I'm taller than Abhi but I still can't point to there. We peaked at 380% of GDP. We're now at 340%. We wrote off some mortgage debt. And it's been flat for a while.

(00:02:04)

As Abhi talked about changes in the corporate market, this is one of the big ones. I think there was a slide similar to this from Steve this morning. From this date to this date, high yield, investment grade and the loan market has doubled in size. Basically you put roughly $3 trillion on it.

In the past, every time you've had a big runup in nonfinancial corporate debt as a percentage of GDP, it will peak and then something bad happens. We're at a higher high now than we were in those previous times, this one being 1990, that's 2000, that's 2008.

But that's only half the problem. Actually it's not even really half, it's less than that. This is the problem. Personally, that's the problem because that's how we're treating it. These blue bars represents the Congressional Budget Office's estimate of the deficit of this country on an annual basis as done in June of 2017. Less than a year ago. A tax bill, a budget bill, a few other things later, and they came out with another one in April. That is October of 2019, a little over a year from now. That bar is almost a trillion dollars, and it continues to go further and further out.

There is a graph—I'll go back, I can do this. Can I get this to go back real fast to show you something? It was in an earlier one that I skipped over. But so, we're here. This is the budget deficit to GDP of the United States. That's 2009. This is today. According to the Congressional Budget Office, it will get worse until 2023, and then it just won't get better. But that number, by the way, is about 6% to 7% of GDP. That's a big number that you have to sit and figure out.

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Now, what are we going to do about that, because we've got to finance it? This looks at all the refinancing that's going to happen from 2017 to 2022. This year, it increases by $500 billion, nice number. This year, it lifts up again by $800 billion. So what's moving? What's causing this to go, that we have to refinance this much more debt going forward? This is the original budget estimate, the deficit. Yes, it goes up a little. This is the tax bill. Not a lot happened in '18 but a lot happens in '19. This is the new budget we have, mostly '19. This black part is the Federal Reserve not buying bonds. We'll get to what's going to happen with them in a second. The blue bar, the dark blue, is the refinancing of corporate bonds, high-grade. It goes up every year from '18 to '22. And the light one at the top is high yield. There's a tremendous refinancing cliff that we have to get through. It’s not can we refinance this, it’s just at what price are we going to refinance this.

Here’s the buyer, or he was the buyer. This is the buying, asset purchases monthly by all the world’s central banks. That number up there in very small print is a little over $150 billion a month, right here, 2017. By the beginning of 2020, zero. They're out of the business. The buyer you’ve had for the last, what is this, roughly eight years is no longer the marginal buyer of government securities or in the case of the ECB, they also buy investment grade corporates. That buyer is going away. We need to find a different one.

(00:06:12)

So I go through that because that's what keeps me awake at night. How are we going to refinance that? We've got a lot of refinancing coming and the biggest buyer has disappeared. It will get done. We’re thinking it might get done, maybe it’s a higher rate.

So why does New Income make any sense? Abhi went through a lot of the detail of how we look at things, how we think about margin of safety. Am I getting paid for the various risks that I’m taking? This is a look at recent history, and these are periods where the shape of the yield curve—or the difference between the two-year treasury yield and the ten-year treasury yield—is roughly, it's 50 basis points when this was done. We have '05-06 look like this, '98-2000. Each of those times, spreads are at very low levels. And the next thing we notice over time is that the next move in spreads is it goes wider. They don't get narrower, they go wider, you've sort of gotten the best you're going to get. So we're today, we're looking at these periods of history and going might be some similarities we need to pay attention to.

So why do we think we're going to do fairly well? Well, the first thing, what we've done here is we've shown Morningstar's intermediate-term bond fund category and the short-term bond fund category. Treasury holdings, we've got about 5%. Not particularly much. Intermediate-term bond fund is about 23%. Short-term bond fund is about 16%. We've got about 7% in corporates. Look at these guys, 38%, 29%. Abhi laid out a pretty strong case that corporate bonds in this country are lesser quality than they were before. There is a lot of exposure to spread, increasing rates in general, and poor covenants for that crew. And lo and behold, we have a lot of asset-backeds. And as Abhi went through with subprime auto the detail of how we find value in that place. So we own different things and we're not exposed to the same thing that they are. This Abhi showed in the beginning. We're starting from a higher yield and a lower duration than the rest of the folks.

(00:08:23)

When you look at the way we invest, it appears—I think I'm supposed to say that instead of a guarantee—it appears, just appears, that over history, the unit of return we're getting for the unit of risk we're taking, as defined by Sortino and Sharpe ratios, looks very attractive. And then if you just think about this, the history goes 20 years. Reasonably long period of time. And that is compared to a nontraditional bond fund, a short-term bond fund, intermediate-term bond fund, the Barclays Agg. This just constant thinking about am I getting paid for the risk I'm taking appears to show itself up in the fact our risk-adjusted returns look attractive.

So let's look at those last periods where we had narrow yields, low yields or low spreads, yield curve that was flat. In this period of '98-2000—by the way, the duration of the portfolio was somewhere between 2.5 and 4.5 during that period of time, the general level of rates was higher. Our drawdown, less than credit, less than the Agg. Our return during that period of time, better than credit, high yield. We weren't as good as the Agg but we're okay. I'm all right with that.

But look over here in 2005-2008. Our duration was 0.5 to 1.75 years then. Our drawdown is significantly less. Our return is actually higher. And the characteristics of the portfolio here are not a whole lot dissimilar to today. So as we look forward, we are confident that we might be able to pull this off again.

(00:10:12)

I'm going to close with this. I know many of you are shareholders; I know some of you are not. We wished you all are, but the facts of life, you aren't. I've taken the world of bonds and divided it into rising rates, flat rates and falling rates. In order to qualify for these periods, if it was falling or rising, it had to go up or down by about 100 basis points in roughly a year so you weren't just getting market noise. And flat was, okay, over sort of a year's period, not much happened. This strategy does very, very well in a rising interest rate environment, as you would expect. We do okay in a flat rate environment. Eventually rates just get so low, it just doesn't really make much sense at all and it hurts us. We were a little—this is a very small number in here. And in falling rate environments, we don't do as well. We did very well in 1991-93 but the general level of rates was 8%. Yes, treasuries did yield 8% at one time in your life. Over here, it's 2%. So we're not surprised by this but when I look at most managers, listen to what they have to say, read the stuff that they do, and I do that, I find that they're all trying to figure out how to win on this one and on a relative basis, lose less on this one. And we take the exact opposite approach, and we think that's where we add value, in the fact that we don't think like they do, we don't act like they do, we don't own the things that they own. We have a completely different approach to solving the equation. And between the two of us, it makes sense for those other managers that you may use that will remain nameless.

(00:11:55)

And I want to close with this before I ask questions—answer questions. This is—well, to me it's a hilarious slide. I came in 1997 to work for Bob Rodriguez as an analyst on this fund. The day I walked in the door, we were in the intermediate bond fund category of Morningstar. In the early 2000s, the duration of the portfolio got to a half a year and they moved us to the short-term bond fund category. Then they created the nontraditional bond fund category and they moved us into there because our duration moved around a lot. Didn't think it was particular appropriate, they didn't think it was a perfect match. They just didn't know where to put us because the nontraditional bonds have a wide swathe of credit that they can do. They could be all credit if they wished; we have a 25% limitation.

Effective a few days ago, 1 May, we are now back into the short-term bond fund category, a much better place for comparison purposes for this type of fund. There's no change to what we've done. The investment approach has not changed from 1984. We've moved in all those categories but the investment approach and the philosophy, the things that Abhi laid out, has not changed. It’s still the same.

The short-term bond fund category for Morningstar is sort of a 1-3.5 year range duration for it, just to give you some sort of sense of that. And we’ll probably be there for quite a while. Unless there's a dramatic change in market conditions, we’re going to probably be in that range. I don’t necessarily see us changing, given the approach we have.

There’s a few things that didn’t get covered but that was from time, because we want to leave some time for questions that you may have. I also do realize that you're going to walk across there and eat lunch, but we are looking at this as an improvement because we used to come on and make the presentation after lunch, and doing bonds after lunch is not a great idea. But we will entertain any questions that you have at this time.

(00:13:58)

Question: Thank you for your insightful comments. Can you speak to the way that the rating agencies have become so lenient with investment grade issuers with their debt-to-EBITDA ratios really at levels that you typically see in the high yield space? And secondly, in terms of the ABS sector, do you have anything that you like or dislike beyond subprime autos?

Thomas Atteberry: I'll take a broad stab at the rating agencies and I'll let Abhi speak to, or maybe some of the team members, speak to sort of the asset-backed areas and things that we've looked at.

First off, as an intro, we don't take any of their research. We don't subscribe to any of the rating agencies' research. We come to an independent decision we're going to buy something or not. And it makes it difficult for me to think of okay, why have not changed the things that they've changed. I do know from past experiences, rating agencies are reactionary. They're slow to change, they look at things in history, they try not to be proactive to making changes that they have. So events will have already occurred when they decide to show up and tell you, oh gee, it wasn't AA, it was actually BBB or whatever. And I can only suspect that that's what we see today, that they're just sort of slow to react, because I can't come up with a different reason, especially from the slide that Abhi had up, going wait a second, the leverage ratios tell me these people are far too levered to be in the ratings categories that you have them in.

Abhijeet Patwardhan: Yes, I think the general thought process when they rate these companies BBB is that the coverage ratio is more than adequate, again predicated upon really low rates, and the companies are promising that, oh, we promise we'll get down to 2 times leverage over the course of the next year or whatever the timeframe is. And so they're kind of willing to give them a pass for the next 12 to 24 months while the leverage comes down, which certainly could happen, right, but it just doesn't really make a lot of sense for us. I'm pretty sure the rating agencies are not that forward-thinking as it relates to the overall market environment and so I'm pretty sure that they're not taking into account that debt matures every once in a while and you have refinance this stuff.

(00:16:12)

Thomas Atteberry: So to asset-backeds.

Abhijeet Patwardhan: Oh, right, asset-backeds.

Thomas Atteberry: Outside of like cars. Other things that we've either been interested in or we own…?

Abhijeet Patwardhan: I'd call them one and the same.

Thomas Atteberry: Okay, go ahead.

Abhijeet Patwardhan: Yes, so if you look in our portfolio today, we own, as you mentioned, asset-backed securities backed by auto loans. We have asset-backed securities backed by insurance premium finance. I'm about to spit out a bunch of gobbledygook that no one's going to understand but feel free to track me down afterwards. We have wireless cellphone tower asset-backed securities. We own CLOs are about 14% of the portfolio and those are mostly AAA and AA rated season tranches, so they're kind of three to four years long. We have a small amount of credit card exposure. So it kind of runs the gamut of a lot of stuff that's not very indexy or if it is indexy, we think we bought it kind of cheap and it makes sense for now. No guarantees it will make sense three months from now.

Thomas Atteberry: And we do own, under the equipment side, it's typically fleet leasing, service trucks. We've got a little bit in construction equipment. We've got a small bit in what might be farm equipment, and we've got a little bit in rental car fleets. But sort of you're looking at just fleets of assets and service trucks that you realize are used. I think that about covers that pile of stuff that's in the asset-backeds. Yes, sir.

Question: Are you able to buy munis?

Abhijeet Patwardhan: We are.

Question: So why did you not buy in Puerto Rico?

Abhijeet Patwardhan: So we did actually give that to Prakash—he was the guy on our team who was doing the work into it. So we spent some time on looking at the Puerto Rican municipal complex and where we came away is that we just couldn't find the spot that made sense for us, right, and we obviously have different return objectives than what the other guys do.

(00:18:05)

But through that process, Prakash actually identified a specific bond that was an obligation of PRASA, which is a water and sewer authority. This bond is no longer in our portfolio but it was extremely interesting. In fact, it may be one of the best bonds we've ever owned, because the bond was 100% collateralized by cash sitting in a US bank account, and so you kind of hear that and you wonder what you're missing, and we spent a lot of time reading documents, reading letters from banks, etc. to make sure it was all legit. But it was legit. There was 100 cents on the dollar worth of cash sitting in a US bank account that was payable on demand by the bondholders. So if Puerto Rico never paid us back then we would just call up the bank and ask for the money back. And we ended up buying that bond at around like a 9% type of yield. Unfortunately we couldn't find more.

Thomas Atteberry: Another question—oh.

Question: When I look at the fund, actually you have good returns but I see the price, the share price going down over the last five years. Am I missing something (inaudible @ 00:19:13)?

Thomas Atteberry: So, right, so the mathematics that's making that happen. We pay a dividend quarterly. That's just, and the dividend is nothing more than just okay, what's the accrued income that we get from all the bonds. We only pay out quarterly, and it's been in the range of let's say 5 to 7 cents. So it goes ex-dividend. I'll just make the numbers in my head. So let's say it went ex-dividend today and it's $10 after it goes ex-dividend. Three months later, we have accrued 7 cents worth of income. It's now trading for, let's say nothing else happened, it's trading for $10.07. We pay out the dividend, the price goes back to $10.

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So what you see to a lot of the decline is the fact that you're accruing income that's going away. You're accruing income and you're paying it out.

The other piece of why it's declining is after the accrued dividend, yes, rates have been tending to rise and yes, our bonds do go down in price. That's the other component of it. But most of what you see is you build up the accrual of income and then it disappears. And it ends up showing up—you'll notice if you go further back in time, it’s seesawed a lot more down than now where it’s not doing nearly as much if you look at that over history. Yes, I can see when you have it with an investor, they look and it and goes wait a minute, this thing goes down all the time. You have to remind them, well, we are paying you out the income.

Abhijeet Patwardhan: And there's one other element that's less at play these days but historically, we tended to buy bonds at a premium. And so what you were seeing with the NAV going down was just that premium amortizing like it would with any bond as it approaches maturity. I can explain that in more detail afterwards.

Thomas Atteberry: Yes, sir.

Question: I understand you are in the top of the capital structure with respect to CLOs but we’re talking about how many (inaudible @ 00:21:04) and the collateral backing CLOs. So do you think in the next downturn, that more of those tranches will experience a loss because the collateral is going to be (inaudible @ 00:21:13)?

Abhijeet Patwardhan: So we’re not the sorts of guys to make sector calls like that but it is possible that some managers who are not as good as they should be in what they're doing could have some lower-rated tranches and maybe don’t do that well. But the thing to keep in mind with CLOs is that the duration of those bonds is very long. So when they first get issued, the duration, especially of those lower tranches, is something like eight years.

So what that means is that if you have a credit cycle happening early in the life of a CLO, you still have a number of years for the market to recover and for those situations to cure. So it's very possible than in the early years of a lower-rated tranche, that performance could be completely awful and then once you get to the end, on a retrospective basis, it kind of looks okay if it's not great.

(00:22:05)

But in our research process, what we've done—and again, this is Prakash's space—but he's done a lot of work meeting with dozens and dozens of managers. He's had dozens and dozens of phone calls, and we've effectively compiled a list of guys that we think are really good at what they do and a list of guys that we don't think are as good at what they do. And so we kind of try to focus on the guys that we think are pretty good.

Thomas Atteberry: We've got time for a couple of questions.

Abhijeet Patwardhan: Or lunch.

Thomas Atteberry: Or lunch, the choice is yours. We thank you very much. The team and Abhi and I will be around for lunch and afterwards if you have any other questions or details you want. Thank you.

Mark Hancock: All right. Quick logistics. Thank you, Tom. Thanks, Abhi. Lunch is across the street. We're going to walk out the doors there, take a left through the corridor across the street to Shutters downstairs. It's buffet-style. Rich Handler, who is our guest speaker, is there with Brian and Mark talking. He is due to get on an airplane to New York whenever he's done, so my sense is if we're deferential to his time constraints, we get our food, sit down and we can listen to Rich.

When you get into the lunch room, each table will have a fund name on it and at each of the tables, we've asked a portfolio manager or a key analyst to be at those tables. So I would suggest if you are interested in a fund or seeing some people who do the real work behind it, go find a fund that you're interested in, sit at a table and hopefully you'll stimulate some conversation. We will see you back here for the International Value Paramount session just before 1:45. Thank you very much.

One last thing. Somebody dropped a parking ticket. Now, this is going to be interesting because you're going to have to check your bags or your pockets, etc. if you have your parking ticket. If you don't, I've got it.

(00:24:06)

Closing Disclosures:

Thank you for viewing our Investor Day presentation. 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 at fpa.com. We urge you to visit the website for additional information on the fund, such as complete portfolio holdings, historical returns and after tax returns.

Please visit fpa.com for future event and webcast information, including replays. We will post the date and time of the prospective calls towards the end of each current quarter, and expect the calls to be held 3-4 weeks following each quarter end. If you did not receive an invitation via email for today's event and would like to receive them, please email us at crm@fpa.com. We hope that our quarterly commentaries, webcasts and special commentaries will continue to keep you appropriately informed on the strategy.

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

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

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