Q3 2020 FPA New Income, Inc. (FPNIX) and
FPA Flexible Fixed Income Fund (FPFIX) Webcast
October 27, 2020

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

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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, 2020 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: [Please reference slide 1] Hello, and welcome to today's webcast. My name is Heidi, and I will be your event specialist today. All lines have been placed on mute to prevent background noise, and please note that today's web conference is being recorded.

During the presentation, we will have a question and answer session. You can ask text questions at any time. Click the green Q&A icon on the lower left-hand corner of your screen, type your question in the open area, and click Ask to submit.

If you would like to view the presentation in a full-screen view, click the Full Screen button in the lower right-hand corner of your screen. Press the Escape key on your keyboard to return to your original view. For optimal viewing and participation, please disable your popup blockers.

And finally, should you need technical assistance, as a best practice, we suggest that you first refresh your browser. If that does not resolve the issue, please click on the Support option in the upper right-hand corner of your screen for online troubleshooting.

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

Kristina: [Please reference slide 2] Thank you, Heidi. Good afternoon and thank you for joining us today. We would like to welcome you to FPA New Income and FPA Flexible Fixed Income Fund Third Quarter 2020 Webcast. My name is Kristina Surkova, and I am relationship manager for the funds. The audio, transcript, and visual replay of today's webcast will be made available on our website, fpa.com.

In just a moment, you will hear from portfolio managers Tom Atteberry and Abhi Patwardhan and members of the Fixed Income investment team. Tom Atteberry is a partner at FPA, and joined the firm in 1997. Tom has been a Portfolio Manager of FPA New Income, Inc. since

2004, and a Portfolio Manager FPA Flexible Fixed Income Fund since its inception in December 2018.

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Abhi Patwardhan is a partner at FPA and has been with the firm since 2010. He has been Director of Research for FPA New Income since April of 2015, and Portfolio Manager for the [FPA New Income] Fund since November 2015. He has served as a Portfolio Manager for FPA Flexible Fixed Income Fund since its inception in December 2018.

Now, let's talk about what happened during the quarter. [US] Treasury yields and curve remain almost unchanged during the quarter, with slight increase in longer-maturity notes and bonds. The decline in high-quality bond spreads continued during the quarter at a vastly slower rate. Credit spreads continued to decline during the quarter, reversing some of that decline in September. However, it still represents marginal value given economic uncertainty.

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

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Tom: [Please reference slide 3] Thank you, Kristina, and thank you everyone for joining us this afternoon for our call regarding the FPA New Income Fund and the Flexible Fixed Income Fund.

[Please reference slide 4] I want to start out by giving people a refresher course, looking at the Funds' highlights from a standpoint of what are our short and long-term[goals]? For the New Income Fund, we seek an absolute positive return on a 12-month period. For Flexible Fixed Income Fund, we seek an absolute return over a 36-month period. On long-term for New Income Fund, we're trying to get CPI plus 100 basis points over five years. And for the Flexible Fixed Income Fund, we're trying to get CPI plus 200 basis points over a five-year period.

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The other big difference to keep in mind, our maximum exposure to things rated less than A- for New Income Fund is 25 percent, and that maximum value we can have in those securities rated less than A- in Flexible Fixed Income Fund, the maximum we can have is 75 percent.

[Please reference slide 5] So let's take a look now at the statistics that we share on a quarterly basis regarding the Funds, and where we stand. Currently the FPA New Income Fund has a yield to worst of 1.65 percent. That compares very favorably to looking at what the Bloomberg

Barclays [U.S.] Aggregate yield to worst is, which is a 1.18, or One to Three [Year] index,[1] which is only 35 basis points. Our [FPNIX] effective duration at the end of the quarter was 1.3 years. The broad index of the Aggregate is 6.12 years, and the effective duration for the One to Three Year Agg is 1.61 years.

So looking at that highlighted box, what you see is our yield to duration continues to be above 1, which is an area we've always liked to focus on. But more importantly, you look at New Income Fund capturing about 139 percent of the yield of the aggregate index, while taking 79 percent less of the interest rate risk in order to accomplish that.

Below, you look at the FPA Flexible Fixed Income Fund with a yield to worst of 2.13, compared to an index that would be somewhat appropriate, the [U.S.] Universal [Index] from the Bloomberg Barclays at 1.65 yield, and an effective duration of 1.38 versus the index's effective duration of 5.97. What's important, I think, at this point to really look at is the Flexible Fixed Income Fund is now capturing about 129 percent of the yield, while taking 77 percent of the interest rate risk of the [U.S.] Universal Index. Those relationships look very similar to the FPA New Income Fund.

[1] "1-3 Year index' refers to the Bloomberg Barclays U.S. Aggregate 1-3 Year Bond Index.

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And so, at this juncture we look at the new strategy [i.e., FPFIX] and realize that it's got those similar characteristics to it [i.e., FPNIX]. Our hope, and what we're striving to accomplish, is one of where we could produce that same attractive risk-adjusted return that we have with New Income Fund over the past 35 or so years for the Flexible Fixed Income Fund as we move forward.

Now at this point, let's take a little bit of a look at history, because history is going to be very important when you look at the previous page's yield. [Please reference slide 6] We have the 10-year Treasury yield. And from 1786 forward is the time period and we've never been at this level before. This is the lowest yield that has ever [been] accomplished in its reported history. So we look at this and realize that you are now in a situation where we have very asymmetrical risk within longer-term bonds; we would say that given that the Fed Funds rate is zero, within short-term interest rates as well.

So how does that start to manifest itself within the indices and our funds, and this next slide gives a pretty good indication of what is going on. [Please reference slide 7] So looking at the equation at the bottom – it's just a simple equation to give us a thought to stress-test and what could happen if rates rise. So you just take the yield to worst of either the index or our portfolio; add to it one plus the yield to worst, or a 100 basis point increase, and divide by two, it gives you an average. Subtract the duration from it, and you get a sense of what your total return might look like if interest rates increased by 100 basis points in a 12-month period. It gives you a rough look at that.

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The blue bars represent the New Income Fund. You look across from September of 2019 to September of this year, and consistently it's been, until recently, just above one. Yes, March was quite high, but that reflects the very high yields from the short-term selloff. I think what's more telling is look at that dark green bar, which represents the Bloomberg Barclays One-to-Three Year Agg Index. And as you go from September of 2019 to September of 2020, that bar gets smaller and smaller, and at the end of March has a slight negative, and now continues to get more negative as we look at June and we look at September. And then the light green bar represents the Barclays Agg, which was a negative outcome to the stress test to begin with, and it just got more negative. We look at this and realize that the market at this point, you've got a lot to lose and little to gain. In fact, what you really have to gain is much more from the previous page, where we looked at yield to worst of these indices, which is also quite low, and as we saw from the 10-year, the lowest on record. So there's very little upside, lots of downside at this point.

So looking at performance, on the next page, just a couple of quick comments to it; [Please reference slide 8] you can look at this mostly at your leisure, more than me going through the numbers. For the quarter, the New Income Fund, we outperformed the Bloomberg Barclays aggregate index, and the one- to three-year index. We can move the slide ahead, thank you. For the quarter, if we look at the second quarter, our strategy did better than the one- to three-year index, but it did not beat the Agg. And then thinking on a little bit longer-term, looking at the one- and three-year areas, we have been able to get a return that looks in line, very close in line to CPI plus 100, which we think is fairly attractive, given the fact that you've got a Federal Reserve policy, we'll go into some detail later, that is a negative real rate policy.[2]

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And so even when we look at the five- and ten-year numbers, we realize we are producing the return for the portfolio that's greater than

[2] **Past performance is no a guarantee, nor is it indicative, of future results.**

inflation, although not necessarily over 100 basis points better than inflation.

We're going to skip slide nine. It gives you the yearly details. And then move to ten, [Please reference slide 10] which gives you the Flexible Fixed Income Fund. And for the quarter, we outperformed the index. We did not do as well as CPI plus 200 for the quarter, but given a short period of time, it's not a big concern for us. Year to date, the Fund is better than CPI plus 200, as is its one-year, and since inception, which is basically January 1, 2019.[3]

[Please reference slide 11] So moving ahead to talk a little bit about the market, the things that we're seeing. I will start off with – [Please reference slide 12] I thought this cartoon pretty much summed it up pretty well, especially in this environment, where we've got monetary policy and fiscal stimulus that have been extremely accommodative. And when you think about 2008, that recovery period, and you think about today, what took several years to come to in 2008 to 2010, we did in several months. In simple terms, a lot of money has been printed; a lot of money has been thrown at the system.

[3] **Past performance is no a guarantee, nor is it indicative, of future results.**

Moving ahead, let's start to drill down a little bit. [Please reference slide 13] Where does that money come from? Where is it going? The graph we're looking at, the red line is the change in borrowing – the change in credit or the change in borrowing – by the federal government. The blue line is private credit; everything else. And lo and behold, that line up; the change in borrowing from government is a little over 16 percent year to date. That change has gone up that much; it's almost as high as it was in the '78 to '82 period. You look at the corporate sector, its change in borrowing coming out of the recession in 2008, it gradually moved its way up. But when you compare with today to what's going on at the government level, it just literally dwarfs it. So you've got the federal government being the borrower, but on the next page, we're going to take a look at [Please reference slide 14] – well, who's the lender to this?

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And what we're looking at here is this is just the change in borrowing. This isn't total borrowing. It's just the change in borrowing. The increase that you saw in the budget deficit, whether it's the Euro area on the left, or the US on the right, that's the orange bars. And then the grey bar is, well how much has the central bank purchased? And just to cut to the chase here, for that budget deficit increase this year, whether you're in the UK, Japan, the Eurozone, or the US, the central bank was basically the lender to sop all that up. Now that lender could mean something along of the lines of well basically, they printed the money in order to facilitate that net increase in borrowing.

[Please reference slide 15] The next page is where we start to drill a little deeper into the corporate sector. This looks at investment-grade and high-yield bonds, what was issue this year. And not surprising, year to date, you have issued a little over $1.4 trillion, the highest you've done in the last 20 years. It's about 1.5 times the highest you've done in the last 20 years. Corporations have tried to build liquidity during the recession and the downturn. They have taken advantage of lower rates, and all those sorts of things. But what I find interesting, to note just beyond the headline of 2020, is look at what started to happen in 2013, where that issuance started to get up and hover around that $800 billion number. Keep that in mind as we go forward, because we're going to get back to that and see where it's manifesting itself today.

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So if I take the government side, and I take the corporate side, the next graph starts to just combine all this together. [Please reference slide 16] The graph we're looking at here is all debt, whether it's everything you can think of, debt-wise in the US economy, what it is as a percentage of GDP. And yes, it's been accelerated; it's been accelerated dramatically, post-1983, but it's literally a vertical line this year. And as we have shown you before, that vertical line is really driven by government borrowing.

But drilling in a little deeper, let's look at what has been the impact of this kind of acceleration on debt and the economy, as it relates to economic growth. [Please reference slide 17] The graph on the left, the blue part is GDP growth; the light blue is equities; the orange or yellow is real estate. That red line represents total non-financial debt in the economy. And from the period of 1945 to 1985, for every $1.50 of debt the economy took on, it got a dollar's worth of GDP. That's the green vertical slide. Post-1985, it's taken three dollars of debt to get one dollar of GDP, or twice as much.

And you can see how that manifests itself by looking at the total debt line, that red line, and realize, next to GDP 1945-1985, it just ran parallel. And then post-1985, debt is shooting up, but GDP is no longer growing. But what are the two elements that are growing? It's the equities, that are light blue, that are growing dramatically, and real estate.

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The right-hand side sort of hones to a narrower period. It looks at 2000 forward. It sets the value of services, the value of goods, the value of house prices at 100; and says, okay what has happened, in essence, the last 20 years? And the growth in house prices, assets, has far exceeded the growth of goods or the growth of services in the economy. So what we've managed to really do is move assets up and lever ourselves up, but we're not getting the kind of economic growth that we have in the past for all this leverage.

So what else do we find when you're putting all this leverage on? You start to see some rather abnormal behaviors show up, as evidenced in this next slide. [Please reference slide 18] This is negative-yielding debt. This just looks at the period, really just the last year, and we're up at roughly $16 trillion on a global basis. It looks like the period of time, the high we saw in 2019, and all-time wise, it looks close to that high as well.[4]

But why are you seeing this? Part of it is, one, investors want to preserve capital at all costs, and they're willing to accept a negative rate in order to try to preserve that capital. The other one is that you have central bank policy which wants to run a negative real interest rate, or an extremely low interest rate on a nominal basis, in order to force investors to go take risk in the bond market, regardless of if that risk is being compensated for or not. Finally, just parenthetically, just to keep in mind: this is not all sovereign debt. Away from the US, you will find investment-grade corporate debt in that red line as well.[5]

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So how is that impacting other parts of the credit market? [Please reference slide 19] And the next graph takes a look at it from just investment-grade corporates. It's 20 years of data. It's yield, which is the light blue line; the dark blue/almost black line is corporate spread. And from a yield perspective, investment-grade corporates, [for approximately] the last 20 years, this is the lowest level you've seen; especially if you look at the last half of the – from June on in 2020. The spread line still shows you okay, it's greater than the low levels that I saw in 2014, or I saw in 2016, or I saw in 2011/2012. But it's down to those levels again. It's slightly higher; however, it is approaching that as well. So what you're looking at, is you're looking at a lower yield. But I'm not at an economic peak; I'm just starting to come out of a recovery. So we look at this, and this to us appears to be asymmetric risk.

[4] Source: Bloomberg. As of September 30, 2020.
[5] Source: Bloomberg. As of September 30, 2020.

The next graph does the same thing. [Please reference slide 20] It just looks at the high-yield market, as defined by the Bloomberg Barclays High-Yield index. And you have a very similar pattern to the investment grade on the previous page. The numbers are slightly different, but the pattern looks very much the same. And again, we see this as a pretty high

instance of having asymmetrical event risk here as well.

But why do these event risks on an asymmetrical basis mean something? And that's where I start to dig into quality of bonds on the next slide. [Please reference slide 21] So the first thing I'm going to look at on here is investment grade corporate borrowing. The left-hand side is gross leverage. Now, they give two things in this graph; one of them is taking metals, mining, and energy out, and the other is leaving them in. That's not the important point; just look at the picture in general. And net leverage on the right.

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Remember several slides back, I talked about how the increase in high-yield and investment-grade borrowing had started to occur in 2013. It manifests itself in these graphs as well, when you look at that leverage, that gross leverage, in 2013 they're accelerating from roughly 2 times, to about 3.4 times today. So if we think about it, we feel that this leverage has been going on for a period of time. So how is it to service that debt? [Please reference slide 22] And this is a look at interest rate expense. Same pattern shows up, although if you do exclude metals, mining, and energy, that increase in interest expense, the dollar amount is less, but the two lines are somewhat parallel. Interestingly on the right, when you look at that coverage, as you started to lever things up in 2013, the coverage ratio starts to decline. Now it's declined rather precipitously in the last six to nine months. It's still at a high level; it's nine times, but it started out at 16 times. This just is a way of looking at and realizing, okay the robustness of that financial statement, that balance sheet, for that corporation on the investment grade side has deteriorated. Keep that in mind going forward.

How does this start to look if I think about it from a broad perspective, and then also start to think about it from a high yield? [Please reference slide 23] The graph we are looking at here is a defining look at zombie companies, those companies whose EBITDA to interest expense is less than 1 for the last three years. The horizontal access is the real rate on a ten-year Treasury. The vertical axis is the percentage of zombie companies across the US publicly listed corporations. As the Fed has taken real interest rates down, from a positive 4.5 percent on the right-hand side of the graph, to a minus 1 percent on the left, the percentage of zombie companies have increased. The little red dot in the upper left-hand corner tells you where we are today, and you are just shy of 15 percent of publicly traded corporates exist in this type of environment.

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What could that mean for us going forward? And the next graph starts to detail that, to some degree. [Please reference slide 24] This is a look at default rates. And the one thing you start to look at in default rates and notice, default rates peak after the recession is over. Not before, but after. And you see those, whether you are looking at 1990 or whether you are looking at 2000, or whether you are looking at 2008. You see it start to rise here as well. You're starting to see the default rate increase.

So you look at this and go, I have an increasing default rate. I have a period in time of extremely low yield. So I'm getting compensated less for that default rate. And this is where that asymmetrical risk starting to really manifest itself.

The next couple of pages, we'll start with this. [Please reference slide 25] Look at the same things for high yield bonds. What's the leverage? In this case it's net leverage. And net leverage has dramatically increased in 2020. It has not reached the peak you saw in the 2015-ish period – that peak really driven by, it has a fairly significant percentage of energy. And when the price of oil got down in the low $20s, the energy sector got into difficulties. That's where you see that spike.

The next graph looks at coverage. And it has a similar look to it as the others have. [Please reference slide 26] Coverage has deteriorated, albeit not as poor as you saw during the 2016 period. So we walk away from this and realize that when we look at this and realize credit is going to be challenging; growth is challenging for us, as we look through these metrics and go, "One needs to be careful."

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Now what could make all this change would be, well, the economy goes back and grows real well. And this graph, set of graphs, that we're going to start to go through, starts to look at households and employment, and that kind of gives you a sense of maybe growth could have some constraints to it.

[Please reference slide 27] The first graph is a look at the employment recovery that's underway. The top part of this, the blue line is a look at total change in payrolls, set from February where we were at zero, and you move forward. You see the big decline, and then somewhat of a recovery, although that blue line is starting to flatten out. Why is it flattening out? Because the green bars are your monthly change in payroll. Where you saw April had a huge decline at 20 million-ish, you see the recoveries, but each of these bars is starting to diminish as well. So that employment growth, nonfarm payroll change, has started to decline in its growth, although it is still up.

If we look at the next page, it is a look at permanent job loss. [Please reference slide 28] And permanent job losses have shot up. They are roughly about 3.7 million. That would make sense in the world which we're in, especially when you combine with the next graph, where you look at temporary layoffs. [Please reference slide 29] Now temporary layoffs have declined. Well, they've declined for two reasons. Two slides ago [slide 27, lower chart], we showed you nonfarm payroll every month. That would take this down as well. That's one way it's declined. The other decline is permanent job losses have increased. So you go from temporary to permanent.

So we see this and realize we're not out of the woods yet as it relates to the employment situation. You still have a tremendous number of people who are unemployed. Remember, even with the decline you're seeing in temporary layoffs, the number you see today is still far higher than you saw in the 1974-1975 period, or 1982 period. It's still extremely elevated.

The next graph [Please reference slide 30] is a way of gauging insomuch the household impact on the economy. We are going to start to go through that. It's that engine of growth, keeping in mind that households make up somewhere around 65 percent or 70 percent of economic activity in this country. This is the employment population ratio. The number of people who are employed as a percentage of the population. We are back to the levels that we had in the 1950s and 1960s, in sort of that low-to-mid 50s area. If you look at the peak we reached in 1998, each subsequent peak has been less. That's somewhat demographic-driven, as your economy ages.

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So what it's telling you is, you look at this and go from a household perspective, I've got fewer people working for the number of people that I have in the country. This could lead to a situation where all right, that may change spending behavior.

[Please reference slide 31] So let's take a look at spending behaviors, and let's start to talk about the other side. This is the personal savings rate. This goes back to basically 1945, 1946 somewhere along there. And the savings rate, for a long period of time until the 1980s, was hovering around 10, 12 percent. It got as much as 15 percent. And then this year, it's spiked. It's over 25 percent currently.

Why is that? Well, the unemployment picture that you saw from the previous pages is giving you some indications of this as why you would see a high savings rate, because jobs are at an uncertainly level. But there are other things at play at how we got here. The first thing on this next graph is just looking at personal income. [Please reference slide 32] It doesn't care how the income came in; it's just personal income. So the spike that you see in the grey bar on the right is representative of the CARES Act and the various other stimulus programs put in place: things such as the $600 additional benefit for unemployment that you would receive weekly versus what you got from the state, or the fact that you received $1200 per household from the federal government, plus $500 for each child.

And moving forward to the next graph, you look at, [Please reference slide 33] okay, those things have gone. They have happened. They have occurred. So now you see that's what the government transfers are, that's how it's defined. And they have rolled off.

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So that has diminished, yet you still have a fairly high savings rate. And how is that impacting spending that individuals are doing, or households are doing? [Please reference slide 34] This looks at spending and households by those that are employed versus those that are unemployed. And that March through that vertical line in August, both cohorts increased, as either A, the lockdowns regressed some and people came out and could spend some money – but you'll notice that the employed, once July and August came around, it just flattened out and stayed flat since then.

When the $600 a week supplementary expired for the unemployed, immediately you saw a decline in their spending. [We believe] they are looking at that saving, and they are realizing that I'm going to probably have to live off that savings because that extra benefit has gone away, and I'm still uncertain about my job prospects.

And what brings us to that conclusion to a degree is to look at the next couple of charts. [Please reference slide 35] The first is a look that the Fed went out and surveyed – what are households doing with this stimulus check, or the unemployed benefit addition? What are they doing? And on the left-hand side, overall, you look at it, the two biggest percentages of what people did, households did with that money was they saved it, and they paid down debt; much more than the items in the middle, whether it was donations to charity, or nonessential spending or essential spending. And that holds true pretty much if I look at under 40, 41-60, 60-plus. They vary some, with your expectation, yes, the 60-plus would save more than the others. But they also paid down debt less. They also may have less debt outstanding. And the people in the middle, the 41-60, where debt is a fairly large segment of their finances, they paid that down to the greatest degree.

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If you look at whether it's no college or college, the same relationship applies, although someone with a college education tended to save more of it than someone without. And then you look at the income levels, and the higher the income level, whether it's below $40,000, $40,000 to $75,000, or $75,000 and above – as you went, they saved more of it, but all three of them substantially reduced their debt. So savings, and debt reduction; they're not spending.

The chart on the right says if you got another one, what would you do with it? And for that second round stimulus, that $1200, let's say if households received that again, 45 percent of the respondents said, "yes, I would save it." Almost 31 percent said, "I will turn around and I will pay down debt." Those on unemployment benefit would save less of it, but they would pay down more of their debt with it, which is on the right-hand side. And those essentials being paid by those unemployment benefits, yes it becomes a greater amount. So both of them, for the new one that comes in, aren't talking about spending. They are talking about savings and paying down debt.

[Please reference slide 36] So every three years, the Federal Reserve sits down and does a very extensive survey of household financial behavior. And this is some of the statistics, some highlights out of it. And I picked 2007, 2010, 2013, 2016, and 2019. So the first one on this debt burden looking across – if you look across that line that says, "Median of debtors," what's the leverage ratio for everyone who has debt outstanding? And it peaked in 2010, that leverage ratio was about 41 percent. It declined in 2013. It declined in 2016. And it declined in 2019. And as we saw from the previous page, it appears that moneys that come in, households will continue to try to reduce leverage.

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If you look at the debt to income ratio, it has the same pattern for those with debt, albeit that when you get between 2016 and 2019, there's a slight rise in that debt to income ratio. And then the payment to income looks the same, with a rise at the end. That is probably more associated with not more debt being put on, but the increase in the interest rates that occurred between 2016 and 2019.

Interestingly on the bottom, look at late payment: after that peak that occurs in 2010, you read across late payments, whether it's 30 days or 60 days, and it sequentially declines. So the consumer is showing you behavior that tells them they want to have a stronger balance sheet; whether it's evidence from this in the fact that they're taking on less debt; whether it's the indications from the stimulus they got before, they were saying, "Okay I'm going to take this and pay down debt," or "I'm going to take this and increase savings." They are acting in a prudent manner, I guess, is the way I'm putting it.

But what that is telling us as we look forward, and we shouldn't necessarily expect the households to be a driver on usual growth, because what the behavior they are telling you is one of they are wanting to reduce debt, and they are wanting to save more, whether you look even during the periods of time of 2013, 2016, 2019, when the economy is doing well, to the uncertain environment that we find ourselves in today, their behavior appears to be consistent.

Now with those comments, I'm going to turn it over to Abhi at this point to talk more about the portfolios and what we've been doing. [Please reference slide 37]

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Abhi: Thank you, Tom. Let's start with FPA New Income and we will begin with performance. [Please reference slide 38]

The largest contributors to performance during the third quarter were corporate loans and bonds, shown at the bottom of this table. Asset-backed securities backed by auto loans or leases and asset-backed securities backed by equipment were the second and third largest contributors. The last two are shown in the second and third lines of this table.

By this point, everyone is probably familiar with what has happened this year. Financial markets saw large declines in March due to COVID-19 related fears, and fixed income markets were no exception. Since then, markets have staged a strong recovery with some support from monetary and fiscal stimulus. The three largest contributors to performance this quarter all benefited from the continued recovery in prices. Adding to that, the corporate holdings also had a few investments that were priced below par pay off during the quarter.

The only detractor from performance was long maturity Treasurys. We'll talk more about that investment in a few minutes but that's a new position that we added to the portfolio this quarter. Other than that, at the sector level, there were no other meaningful detractors from performance.

On the next slide, [Please reference slide 39] these pie charts show the portfolio's exposure broken down by investment idea. The third quarter exposures are on the right and the exposures as of the second quarter of this year are on the left. There are three notable changes. First, the [ABS] CLO exposure increased from 10 percent of the portfolio as of June to 19 percent of the portfolio as of September. Second, there's the new Treasury exposure of approximately 5 percent that shows up in September, and again, we'll talk about that in a few minutes. Third, the cash and equivalents decreased from 14 percent of the portfolio to 5 percent. The reduction in cash is the result of our investment activity, with a lot of that coming from the increase in [ABS] CLOs[6] and the new Treasury position. So let's take each of those two in turn.

(00:35:43)

On this next slide, [Please reference slide 40] we've shown a version of this chart during the last couple of webcasts. This chart shows

[6] The use of ABS CLO, CLO and CLO 3.0 is generally synonymous throughout the presentation and materials, unless otherwise noted.

spreads on various types of asset-backed securities [“ABS”] from the beginning of this year through the end of the third quarter. The types of bonds referenced in this chart represent a significant part of our portfolio, so this chart is particularly relevant for us.

As I mentioned earlier, bond prices fell significantly in March. This is reflected in the higher spreads shown on this chart. Since then, prices have risen and spreads have declined. As shown in the table at the bottom, for much of the ABS market, spreads are now at or below the levels they were at before COVID. What stands out, though, is that CLO spreads are still above their pre-COVID levels, shown at the bottom of the table. But what is even more interesting is that CLOs are even cheaper when taking into account changes that have occurred post-COVID.[7]
I’ll turn it over to Prakash from our team to explain.

Prakash: [Please reference slide 41] Thank you, Abhi. It’s been a while since we’ve talked about CLOs, so we thought it worthwhile to provide a refresher, particularly given the investment activity in the third quarter.

So what is a CLO? A CLO is a structured debt instrument secured primarily by first-lien leveraged loans. Leveraged loans are loans made to non-investment grade corporate borrowers, and are typically secured on a first-priority lien basis by substantially all the borrower’s collateral. This collateral may include intellectual property, receivables and inventory, plants and equipment, any other assets critical to the business. On occasion, when the risk/reward is favorable, the Funds make direct investments in such loans.

CLOs are frequently in the headlines as the market has grown from a niche investment area to an asset class now held by a variety of investors. CLOs are often painted in a negative light and compared, [we believe] inappropriately so, to the subprime mortgage CDOs of the past. The data, however, tells a different story.

Moody's puts out a long-range study, encompassing two-plus decades of data of CLO impairment rates. The table on this page shows the 10-year cumulative impairment rate for CLO tranches rated AAA through BB. There have been zero impairments to AAA CLOs, a notable data point.[8]

(00:38:09)

While these statistics lay the groundwork for investment thesis, we don't rely on them when considering investments in this asset class. We take a more granular approach and evaluate each bond on its individual merits. Let's now take a look at how CLO structures provide downside

[7] **Past performance is not a guarantee, nor is it indicative, of future results.**

protections for investors.

A CLO has multiple debt tranches, and a residual, or an equity tranche, at the bottom. The equity tranche receives any residual cash flow after contractual principle and interest on debt tranches are paid. Principle and interest are paid in sequential order, with an AAA tranche getting paid before the AA, the AA before the A, and so on down the waterfall. Losses are absorbed in the reverse order, with equity absorbing losses first, then the BB, and up the waterfall.

CLOs also benefit from protective covenants. In the event the underlying collateral deteriorates, for example, its loans default or are downgraded by the ratings agencies, cash flows to equity and junior debt tranches are shut off and diverted to pay down the AAA. Cash flows to junior tranches are not restored until the AAA bond is paid down sufficiently to bring its risk profile back into balance. These self-curing mechanisms are designed to proactively protect AAA investors from prospective losses on the underlying collateral.

Let's now look at loss coverage. Similar to how we underwrite other ABS sectors with diversified collateral pools, we build our own stress model and run every AAA bond through this model to ensure it is adequately covered.-Beyond

[8] **Past performance is not a guarantee, nor is it indicative, of future results.** CLOs are generally offered only to institutional and/or accredited investors, and are not directly available for investment by individual investors.

our stress model, we spend considerable time evaluating CLO managers. We favor managers who have successfully navigated multiple credit cycles, have long-tenured senior professionals whose CLO business is critical to the overall platform, and whose investment philosophy generally aligns with ours; mainly, a focus on downside-protection. We also review the underlying collateral. As noted, since we invest directly in the loan market, we are able to distinguish between a high- and low-quality portfolio of loans. Finally, we study deal documentation to ensure we have adequate structural protections in a downside scenario.

Abhi is going to go into greater detail on our rationale for increasing our CLO exposure.(00:43:33)

Abhi: [Please reference slide 42] Thank you, Prakash. In summary, we have recently found CLOs attractive, as Prakash mentioned, because of higher spreads and better protections for investors. On top of that, we believe the underlying loan collateral is better quality these days.

Another appeal is that these bonds have floors on the coupon. With interest rates so low and the curve so flat, these bonds [often] offer a better return profile than what we can get in other high quality bonds, though it is important to note there is a tradeoff in that these bonds have less call protection than some other high quality bonds, so there may be less price appreciation if spreads decline or interest rates fall significantly. But when we roll all of that together, we see a better risk/reward profile compared to other alternatives in the high-quality bond space.

The majority of the CLOs held in New Income and Flexible Fixed Income are AAA-rated bonds with a weighted average life of one to four years. Within Flexible Fixed Income's credit holdings, we also own newly issued BBB CLOs and BB CLOs. The investment thesis there is that we've purchased bonds issued by managers that we think have a great track record and approach, as Prakash just described. These bonds benefit from the same sorts of added protections described earlier so, even if defaults are elevated and it impacts the principal on these bonds – that's a big IF – because of the high coupons on the bonds versus the level of protection, we think that we'll end up breaking even or making money in that downside scenario.

Since we began investing in CLOs in earnest a couple of years ago, we had always said that we limited our CLO exposure because we were aware that these bonds are prone to periodic bouts of wider spreads and we wanted to have capacity to take advantage of that. This past quarter, we utilized that capacity that we had been preserving.[9]

[Please reference slide 43] Moving on now to the new Treasury investment. Here on this slide, the Federal Reserve started a large monetary stimulus program in March. More recently, the Fed changed its inflation-targeting framework to now target average inflation of 2 percent over some time period rather than putting a ceiling on inflation of 2 percent. With those two moves, it feels like there's a consensus out there that inflation is coming – or reflation as people have been referring to it. The problem is that over the recent history, these expectations of higher inflation haven't really panned out in a sustained way.

(00:45:56)

The charts on this slide show forecast versus actual inflation for the US, Europe, and Japan. Looking at the chart on the left, in the US we've had moments where inflation has satisfied the Fed's 2 percent objective. But inflation ends up dying on the vine for one reason or another, and note that inflation in the US was weakening before COVID. This inability to get inflation liftoff isn't just a US phenomenon; it's been true in Europe and

[9] Certain statements made may be forward-looking and/or based on current expectations, projections, and information currently available to First Pacific Advisors, LP. Such statements may or may not be accurate over the long-term. While we believe we have a reasonable basis for our comments and we have confidence in our opinions, actual results may differ from those we anticipate. We cannot assure future results and disclaim any obligation to update or alter any forward-looking statements. Statistical data or references thereto were taken from sources which we deem to be reliable, but their accuracy cannot be guaranteed.

Japan, shown in the middle and on the right, respectively.

[Please reference slide 44] In any event, these days, a lot of people believe that the Fed is going to be successful this time, so forecasters are expecting rising long-term interest rates, shown here in the dotted line on the right. But again, historically, predictions of higher interest rates haven't panned out in a sustained way.

On the next slide, [Please reference slide 45] the reason we say that maybe that injecting a bunch of money into today's economy just doesn't create the stimulus that the central banks expect. We've seen this movie before. For the past 10 to 15 years, the Fed has been flooding the economy with money, but it has not led to inflation. Looking at the chart on the left, as the Fed's balance sheet, in red, has gone up, inflation expectations, in blue, have actually gone down. And here again, that's not just a US phenomenon; that's been true in Europe and Japan, shown in the middle and the right, respectively.

(00:47:23)

This chart on the next slide [Please reference slide 46] show why maybe this time could be different. Maybe this time could be different because at the same time that we have huge monetary stimulus, we also have had massive fiscal stimulus with perhaps more coming, depending on what happens with the election. Fiscal stimulus could be the spur for inflation. However, as Tom noted earlier, the counterpoint is that the beneficiaries of that stimulus may not spend that stimulus; they may just save the extra money or pay down debt. In other words, adding a bunch of stimulus to today's economy doesn't necessarily have the same impact as it has had in the past because today's economy is heavily indebted and, importantly, we don't know yet how productive any new fiscal stimulus will be. Fiscal stimulus that ends up handing money to people who save it is different than stimulus that is a capital investment with an associated return on investment. So, in short, the jury is out on whether fiscal spending will contribute to inflation.

[Please reference slide 47] What does this all have to do with our Treasury investment? Well, if inflation happens, our core portfolio is insulated against a rise in interest rates. We wanted to add something to help the portfolio if interest rates don't rise. Recall that we try to make investments that we expect will have a breakeven or positive total return over twelve months, assuming that yields rise by 100 basis points over that 12-month period. That increase in yield could come via an increase in benchmark interest rates and/or an increase in spreads.

With a duration of approximately one year, our core portfolio is wellpositioned for a rise in nominal interest rates that may occur due to higher inflation and, possibly, a rise in real interest rates. However, as we just walked through, it's not a given that inflation is going to show up in a meaningful way.

As we have said many times before, we are not macro investors. So we don't know if inflation will show up, and we don't have a view one way or the other. What we do know is that inflation is not a certainty. We also know that if inflation does not materialize, the Fed could step in with more quantitative easing, a new Operation Twist[10], yield curve control, negative interest rates, or some other novel program. As of today, the Fed says that it is not seriously contemplating negative interest rates due to questions about its efficacy, but there's nothing stopping the market from pushing rates into negative territory in anticipation of some future Fed move.

(00:49:57)

If any of those things happen, our core portfolio will see limited benefit because of its short duration. So to inject some additional price appreciation potential into the portfolio or to hedge against the possibility of lower interest rates, we invested in five-year maturity Treasury bonds. That investment represents a 4.6 percent position in the portfolio. We chose five-year maturity bonds and sized the position in such a way that, if rates decline, [we believe] the position will meaningfully contribute to the portfolio's overall total return. However, if rates are higher, we expect that the negative return on the Treasury position won't hurt the portfolio too much and, importantly, should allow the overall portfolio to still produce a positive return over the course of a year.

With all of that said, like any hedge, this Treasury position has a cost. So just like this past quarter, we expect that it may periodically detract from performance if interest rates rise. One of the reasons we chose to execute this hedge via the Treasury market is that Treasurys are one of the most liquid assets in the world which makes it much easier for us to adjust the size and profile of this investment as market conditions change.

[Please reference slide 48] The net result is shown here on this slide which shows a simulation of the portfolio total returns under different yield change scenarios. The blue bars show the portfolio's simulated

[10] Operation Twist is the name given to a Federal Reserve monetary policy operation that involves the purchase and sale of bonds. The operation describes a form of monetary policy where the Fed buys and sells short-term and long-term bonds depending on their objective. However, unlike quantitative easing, Operation Twist does not expand the Fed's balance sheet, making it a less aggressive form of easing. https://www.investopedia.com/terms/o/operation-

return over the course of a year, and the other colored bars show the same results a year ago and two years ago. Adding the Treasury position adds to the return in the scenarios on the left where yields decline. But on the right, from a risk management standpoint, we've set up the investment such that we would still expect an overall positive return for the portfolio if yields were to rise over the next 12 months.

[Please reference slide 49] On this next slide, we show the overall portfolio duration, towards the bottom, is 1.3 years. The third row shows the five-year Treasury with its five-year duration. As I mentioned before, excluding the five year Treasurys, the rest of the portfolio, or the core portfolio, has a duration of approximately a year so the Treasury position adds about a quarter or third of a year to the overall duration.

(00:52:05)

[Please reference slide 50] Turning now to credit markets on the next slide, we see a disconnect between fundamentals and asset prices – though this could also apply to markets in general and not just the credit markets. As shown on this chart, COVID-19 is clearly having an impact on economic growth and fundamentals. [Please reference slide 51] Tom already showed earlier that leverage for high-yield borrowers has increased due to a fall in earnings. On top of that, liquidity for these borrowers has been negatively impacted. Yet, looking at this chart showing the high-yield market, which shows yield and spread on the high-yield index, market prices, after a pretty violent initial reaction in March, seem to be saying, “Meh, whatever, it will all be fine.” People are investing assuming that we are going to get to the other side and the other side will be as good or better than it was before COVID-19 struck. Part of this – or maybe a lot of this – is happening because of TINA which means “there is no alternative.” With interest rates stuck at zero, investors are reaching for the next best thing, without regard to price.

[Please reference slide 52] Importantly for us, the yield on the index today is almost at the same level that it was prior to COVID and yet these companies are clearly in worse shape today and with a much less certain future ahead of them. It doesn’t make sense to us that a worse set of facts gets a similar return. Now some might say that the spread is higher and that’s where the extra compensation lies. To summarize what we said in our commentary from June of this year[11], when interest rates are near zero, getting more than nothing is not the right measure of compensation. Losses are measured in dollars, so return should be measured in dollars. That’s yield, not spread. As a quick note, as we show on the current slide,

[11] https://fpa.com/docs/default-source/funds/fpa-new-income/literature/quarterly-commentaries/fpa-new-income-commentary-2020-q2.pdf?sfvrsn=4

the same situation arises in the loan market where yields are actually lower than they were pre-COVID. Again, this doesn't feel right to us.

(00:54:01)

Moving to the next slide [Please reference slide 53], we can see that for New Income, that means that our credit exposure is largely unchanged. We've made a couple of credit investments, mostly in short maturity bank debt and structured product bonds backed by non-performing residential or commercial mortgages. That was offset by some investments that had paid off.

Turning now to Flexible Fixed Income [Please reference slide 56] – on the next couple slides, [Please reference slide 57] we show that the largest contributors to performance during the third quarter were corporate loans and bonds, collateralized loan obligations, and asset-backed securities backed by equipment. These investments all benefited from the rise in bond prices during the quarter. Flexible Fixed Income's corporate holdings also benefited from a few positions paying off that were priced below par. There were no detractors from performance during the quarter at the sector level.

On the next slide [Please reference slide 58] we can see the portfolio exposures. The most significant change quarter-over-quarter was the increase in [ABS] CLOs from 14 percent of the portfolio to 25 percent of the portfolio, the rationale for which we covered a short while ago.

Moving on to the next slide [Please reference slide 59], we show the characteristics of each sector in the portfolio. Notably, unlike New Income, we do not have a five-year Treasury position in Flexible Fixed Income. At least as of the end of the quarter [9/30/2020], we didn't feel that the hedge was necessary for Flexible Fixed Income. The main reason is that the fixed rate holdings in Flexible Fixed Income have a longer duration than the fixed rate holdings in New Income's core portfolio, excluding the Treasury hedge. So from the perspective of a potential decline in risk-free rates, we felt we already had enough upside potential in the Flexible Fixed Income portfolio.

That can be seen on the next slide [Please reference slide 60] when comparing the Flexible Fixed Income portfolio stress test to that of New Income [slide 47]. For example, if rates are higher—sorry, if rates are 25 basis points lower, this chart says that the 12-month total return before fees for Flexible Fixed Income would be about 3.65 percent, whereas the same scenario would produce approximately a 2 percent [anticipated gross] return before fees for New Income, and that includes the benefit of the Treasury hedge in the New Income result. With that said, the portfolio decisions are never set in stone, so our views on this may change in the future.

(00:56:22)

Finally, on the next slide [Please reference slide 61], here we show the Flexible Fixed Income portfolio broken down by rating. The bottom shows that 20[.5] percent of the portfolio is held in credit or investments rated BBB or lower. In addition to the CLO credit investments we described earlier, we made credit investments during the quarter in corporate bank debt, high yield bonds, and securitized bonds backed by non-performing residential or commercial mortgages.

Notwithstanding the comments we made earlier regarding the expensiveness of the credit markets, because Flexible Fixed Income has much more credit capacity and a longer three-year positive return horizon, we have found credit investments that make sense for Flexible Fixed Income that aren't a great fit for New Income given its lower credit capacity and shorter one-year positive return horizon.

When we launched Flexible Fixed Income, we told investors that because Flexible Fixed Income and New Income are managed by the same team with the same investment approach, there would be periods of time when New Income and Flexible Fixed Income have more similar exposures and return profiles, and times when they differentiate from each other, depending on how expensive or cheap the markets are. COVID-19 has created one of those situations where the portfolios are taking on different complexions and you can see that reflected in the difference in yield, duration and credit exposure.

Thank you, and with that, we have a few minutes for Q&A.

(00:57:46)

Kristina: [Please reference slide 63] Thank you, Abhi. And thank you to those of you who have submitted your questions in advance and during the webcast. We addressed many of those during prepared remarks, and will several of them right now, and we can circle back with those who we don't get to respond to offline.

We often get questions regarding availability of Flexible Fixed Income Fund on various platforms, and we wanted to update you on our progress. We added FPA Flexible Fixed Income Fund to LPL and Raymond James platforms during Q3.

Another question that comes up periodically is regarding the SEC yield for FPA New Income Fund and whether it can be published monthly. We do publish it on a quarterly basis on our website as part of the fact sheet and other materials. As of September 30, the subsidized SEC yield was 1.98, and unsubsidized was 1.86.[12] The monthly version, although we don't produce it, it is available at third-party platforms that calculate it every time we pay the dividend.

And now we will move to some additional questions. Have you considered Treasury futures or options on futures as an alternative way to gain rate exposure?

(00:59:27)

Tom: Abhi, I will take a stab at that question.

I'm going to answer it a couple of ways. And the first one is, yes, although there is a cost to trying to do it in such a fashion as using futures or options. That's the first one; it's not to where you couldn't get the purist form, just dealing literally by buying the Treasury.

The other one is more specific to New Income. We are very limited in what we can do in options or futures in the FPA New Income Fund, and the prospectus limits us. Really, the only times we can use that is to hedge a currency risk. So for us to try to use for this kind of purpose would be outside of the bounds of the guidelines that the Fund has. As we have

[12] The SEC Yield calculation is an annualized measure of the Fund's dividend and interest payments for the last 30 days, less the Fund expenses. Subsidized yield reflects fee waivers and/or expense reimbursements during the period. Without waivers and/or reimbursements, yields would be reduced. Unsubsidized yield does not adjust for any fee waivers and/or expense reimbursements in effect. The SEC Yield calculation shows investors what they would earn in yield over the course of a 12-month period if the fund continued earning the same rate for the rest of the year.

said many times, it has traditionally and always been one of, "Okay, we're are a cash buyer of bonds to help accomplish our objective."

(01:00:27)

Kristina: Thank you, Tom. And another question: thank you for the helpful update. Based on your comments, is there a disconnect between the leveraged loan and CLO markets? Abhi, I think you are taking this one.

Abhi: Yes. And I will roll into that another question that we got, which is: why have CLO spreads remained high despite the low impairment rates of high-priority tranches?

So the disconnect question can be taken one of two ways. One way is that the loan market is really expensive, but CLOs are cheap. Or alternatively, leveraged loans are dicey; why should AAA CLOs trade at the spreads that they trade that, which some might perceive as low spreads?

I think the question was meant in the first way. There is some disconnect, although I don't think the point should be lost that there's a lot of risk in the leveraged loan market. Not only are the prices high, but capital structures over time have shifted towards being more loan-heavy, which puts the loans themselves at greater risk of principal impairment, all things being equal. Couple that with the fact that, as Prakash has laid out, the loan market has shifted towards more covenant-lite structures, and I think that headline description of "covenant-lite" really belies the dastardliness of what really lies within those structures in terms of the holes and capabilities for people to screw you over.

We don't really see a large disconnect. Now having said all that, the CLO market, and AAA bonds specifically, have had an impressive historical track record with respect to no impairments. But as we pointed out during our commentary, there is a history in this asset class of going through these bouts where spreads tend to widen in a pretty meaningful way. And I think it's because the underlying collateral, which is the leveraged loan market, has a lot of transparency for those who are involved in the fixed income market. So if you're a fixed income investor sitting in front of your Bloomberg, and you see that the loan market is selling off, that naturally creates a concern in your head that any bonds attached to that underlying loan collateral could be in danger.

So putting that all together, that's part of the reason why we have always set aside some capacity to pool in more capital into this space. And we took advantage of that during the quarter.

(01:03:01)

Kristina: Thank you, Abhi. And one more question. Would you please discuss the specific credit risks in FPA New Income Fund?

Abhi: Yes. I don't know if we can give a comprehensive answer in the time that we have remaining, but I guess we can summarize it into a few buckets.

So we do have corporate credit risk that mainly lies in our credit holdings, which I pointed out are somewhere round six percent of the portfolio. We also have consumer credit risk in our asset-backed holdings. A lot of that lies in our auto ABS holdings. We have general small- to medium-sized business risk through the equipment holdings. We've got mortgage risk in various forms, through some of the bonds that we own.

So we have exposure to lots of different credit risk in the portfolio, at a very fundamental level. But when you flow all those risks up to the bonds that we actually own, we have chosen to own bonds that we think are really well-protected from whatever the relevant risk is. And again, not to belabor the CLO investment, it serves as a good example of the way we approach investing in the portfolio in general.

Leveraged loans obviously have corporate credit risk attached to them. And any specific loan has the specific risk idiosyncratic to that particular business or sector. But when you roll those risks up to the bonds that we're invested in, we're largely invested in these AAA bonds which, as Prakash had detailed, provide what we think is a tremendous amount of protection against any of those risks creating impairment on the underlying loan collateral.

Our job as investors is to try to identify the risk, and either make investments that we think are compensating us for those risks, or make investments that we think are well-protected from those risks to the extent possible that they become a non-issue. And for the vast majority of the portfolio, given the low credit exposure that we have in our holdings today, for most of the portfolio, any of those particular credit risks, we've put more into the non-issue camp, because we feel like we do have a lot of protection through structure of various forms. However, if the person who asked the question wants to go into any more detail, please feel free to follow up with us offline.

(01:05:47)

Kristina: Thank you, Abhi. And thank you to those of you listening to the FPA New Income Fund and FPA Flexible Fixed Income Fund Third Quarter 2020 Webcast. We will now turn it over to the system moderator for closing comments and disclosures.

Heidi, over to you now.

Moderator: [Please reference slides 64-69] Thank you for your participation in today's webcast. We invite you, your colleagues, and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website within a few days at FPA.com. We urge you to visit the website for additional information about the Fund such as complete portfolio holdings, historical returns, and after-tax returns.

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

Please visit FPA.com for future webcast information, including replays. We post the date and time of upcoming webcasts towards the end of each quarter, and webcasts are typically held three to four weeks following each quarter end. If you did not receive an invitation via email for today's webcast and you 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 strategies discussed today.

We do want to make sure that the views expressed on this call are as of today, and subject to change without notice based on market and other conditions. These views may differ from other portfolio managers and analysts at the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advices.

(01:07:53)

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It should not be assumed that future investments will be profitable or will equal the performance of the security or sector examples discussed.

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

You should consider the Fund's investment objectives, risks, and charges, and expenses carefully before you invest. The prospectus details each Fund's investments, objectives, and

policies, risks, charges, and any other matters of interest to a prospective investor. Please read the prospectus carefully before investing. The prospectus may be obtained by visiting the website at fpa.com, by email at crm@fpa.com, toll-free by calling 1-800-982-4372, or by contacting the Fund in writing.

FPA Funds are offered by UMB Distribution Services, LLC.

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

(01:09:26)

[END FILE]

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

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The current prospectus for FPFIX can be accessed at: https://fpa.com/request-funds-literature

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

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The **Nontraditional Bond category** contains funds that pursue strategies divergent in one or more ways from conventional practice in the broader bond fund universe. Many funds in this group describe themselves as "absolute return" portfolios, which seek to avoid losses and produce returns uncorrelated with the overall bond market; they employ a variety of methods to achieve those aims. Another large subset are self-described "unconstrained" portfolios that have more flexibility to invest tactically across a wide swath of individual sectors, including high yield and foreign debt, and typically with very large allocations. Funds in the latter group typically have broad freedom to manage interest rate sensitivity, but attempt to tactically manage those exposures in order to minimize volatility. The category is also home to a subset of portfolios that attempt to minimize volatility by maintaining short or ultra-short duration portfolios, but explicitly court significant credit and foreign bond market risk in order to generate high returns. Funds within this category often will use credit default swaps and other fixed income derivatives to a significant level within their portfolios.

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

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