Introduction

On September 1, 2015, FPA launched the U.S. Value Strategy. This Policy Statement is designed to serve as a summary of the thought processes behind how portfolios will be constructed and managed.

Investment Objective and Strategy

The primary objective of the FPA U.S. Value Strategy is long-term growth of capital. Current income is a secondary consideration.

Goal

The Strategy strives to generate returns in excess of the S&P 500 Index over full market cycles.

Philosophy

I. Avoid Permanent Capital Impairment. One of the most important aspects of successful investing is knowing how to avoid permanent capital impairment. The numbers speak for themselves. For example, losing one-third of your capital requires a future investment return of 50% just to break even. That is no easy feat. Permanent capital impairment is usually the result of a few key mistakes, amongst them: Investing in a mediocre or bad business whose profitability structurally declines. Overpaying for a company. Investing in a company with too much financial leverage that does not allow it to make it through a tough business cycle without having to restructure, thereby causing impairment to the equity. To avoid these mistakes, the Strategy:

- maintains an investment discipline that focuses on key factors such as business quality, valuation and financial leverage.
- determines an appropriate level of diversification by number of investments and industry exposure in the portfolio.

II. Invest in Quality Companies at Attractive Valuations. We believe that one of the best ways to generate strong absolute returns, along with outperformance over full market cycles, is to invest in quality businesses at valuations that do not reflect the underlying companies' quality and future growth potential. As a result, we are typically looking for quality companies that appear misunderstood and/or out of favor. Companies can remain unloved for varying lengths of time. But ultimately, the superior characteristics of the business should come through in the financials, followed by the company's valuation being subsequently re-rated higher by the market. By paying cheap prices for quality companies, the portfolio's returns can benefit from future above-average earnings growth, free cash flow that can be returned to shareholders in the form of dividends, and/or share repurchases, as well as the potential for expanding earnings multiples.

We are generally not interested in purchasing mediocre or bad businesses at ostensibly discounted prices. Such businesses are difficult to value. If a seemingly cheap, but mediocre or bad business has earnings that are flat to declining, it is challenging to estimate what future earnings might be, much less a multiple on those earnings. That is why we believe owning quality companies purchased at a discount to our estimate of intrinsic value is a less risky approach to grow capital in the long-term and outperform the U.S. equity market over full market cycles. Time is often the friend of a quality business, and additionally, it allows us to hold the investment over multiple years, which generally improves tax efficiency.[1] The Strategy invests in quality companies that we believe have:

[1] From time to time, the Fund may buy and sell the same security within a short period of time. The frequency of trading within the Fund impacts portfolio turnover rates. A high rate of portfolio turnover (100% or more) could produce higher trading costs and taxable distributions, which would detract from the Fund's performance. The U.S. Value Fund, formerly known as the Perennial Fund, had a turnover rate of 117% from June 15, 2015 - October 15, 2015 due to the Fund's transition during that time period.

- strong and enduring competitive positions
- growing businesses within a growing industry resulting in growing earnings
- current and/or prospective high returns on capital
- current and/or prospective robust free cash flow generation

III. Preference for Companies with Good Management. Ideally, we like to invest in businesses that are well managed from an operational and capital allocation standpoint. That being said, we believe that the quality of the business and valuation are more important than good management. That is because absent a structural impediment, a poor management team can be replaced, but a good management team generally cannot turn a structurally bad business into a quality one. As a result, we may consider investments in good businesses that are not well-managed, provided executives can be replaced and there is an ample discount to our estimate of intrinsic value. Often, the reason a quality company is offered at a cheap price is due to poor results that stem from mismanagement.

Process

The investment process of constructing a portfolio begins with idea generation. There is no single way in which we find investment ideas to research. They can come from our knowledge base from having researched a mix of different industries over the years, and from attending investment conferences and meeting with various companies. Additionally, we run screens, utilize third party research, read a diverse set of publications and discuss investment ideas with industry peers. Lastly, we will reach out to a company's competitors, customers, suppliers and former executives as well as industry experts to discuss with them their respective sectors and companies.

There are approximately 3,000 companies that meet our market capitalization threshold of at least $2 billion at the time of purchase. However, the list of potential candidates can quickly be narrowed down to a fraction of that universe since so few companies meet our strict quality and valuation parameters.

From that list, we then apply our research and analysis of the company's respective industry and its competitive position within the industry. We analyze the company's business model and then determine:

- management's ability to operate the business
- how they allocate capital
- how management is compensated including the metrics upon which they are incentivized
- what kind of culture they maintain

After our due diligence, if we believe we have found a quality company trading at an attractive valuation with an appropriate margin of safety[2] should our investment thesis prove incorrect, we will add it to the portfolio.

We will sell investments for three reasons:

1. The market has recognized the company's quality with a valuation re-rating such that estimated future returns from that new price are projected to be below average.
2. An investment thesis is proven wrong. We will not rationalize holding an investment even if the price/valuation has declined.
3. A superior opportunity becomes available.

Portfolio Construction

In building the portfolio, we look to stay within the following major parameters:

- Broad market capitalization – The Strategy will invest in companies with market capitalizations of $2 billion or more, at time of purchase, allowing us to invest wherever the

[2] Buying with a "margin of safety," a phrase popularized by Benjamin Graham and Warren Buffet, is when a security is purchased for less than its estimated value. This helps protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

best opportunities arise. If the market capitalization of one of these companies declines below $2 billion, the Strategy has the ability to purchase additional shares.

- U.S. Companies – 80% of the portfolio will be invested in U.S. companies, which include companies which alone or on a consolidated basis derive the highest concentration of annual revenue, earnings, or assets from goods produced, sales made, or services performed in the U.S.
- Opportunistic foreign investments – Up to 20% of the portfolio may be invested in non-U.S. companies whose largest market is outside the U.S.
- Appropriate diversification – Individual positions will not exceed 5% of total assets at time of purchase, with an approximate average position size of 3% to 4%. Our aim is for the portfolio to have sufficient diversification to mitigate the risks of a more concentrated portfolio that will hopefully outperform because of good stock picking.
- Typically fully invested – We will focus on owning high-quality companies that we believe should increase in value over time and expect that cash will not exceed 10% of the portfolio.

Conclusion

We believe our competitive advantage stems from our ability to determine the quality of a company and its industry, as well as from understanding management's incentives and how they motivate their employees. We know what we're looking for in terms of the kinds of companies we want to invest in and the kind of valuation we want to purchase them at. The market is inherently short-term focused, which gives patient, value-oriented investors like us the ability to take advantage of this time-horizon disconnect. Time is the friend of quality, competitively-advantaged companies operating in growing industries and the enemy of those facing the opposite circumstances.

We truly have a passion for investing. Even though this is our occupation, we do not feel it is a job. Investing is something we will do until we no longer can. That is because we love waking up every day looking forward to learning about new industries and companies with the optimism that we will find some high-quality ones to invest in at cheap prices. At the same time, we take an immense amount of pride in the research and analysis we do. We are extremely competitive and anything short of meaningful outperformance over any full market cycle will disappoint us greatly.

Important Disclosures

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.

The views expressed herein and any forward-looking statements are as of the date of the publication and are those of the portfolio management team. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

Investments in mutual funds carry risks and investors may lose principal value. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; these risks may be heightened when investing in emerging markets. Small and mid-cap stocks involve greater risks and may fluctuate in price more than larger company stocks. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio manager considers the true business value or because the portfolio manager has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

Index Definitions

The S&P 500 Index includes a representative sample of 500 hundred companies in leading industries of the U.S. economy. The Index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

Morningstar Large Blend Average consists of portfolios that invest in a variety of large US stocks. Stocks in the top 70% of the capitalization of the US equity market are defined as large-cap. The blend style is assigned to funds where neither growth nor value characteristics predominate.

The Russell 2500 Index consists of the 2,500 smallest companies in the Russell 3000 total capitalization universe and is considered a measure of small to mid-capitalization stock performance.

Indices are unmanaged, do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. Investors cannot invest directly in an index.

Please consult your tax advisor regarding higher capital gains distributions due to a change in portfolio strategy.

The FPA Funds are distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.