# FPA U.S. Core Equity Fund, Inc.
## Third Quarter 2021 Commentary

**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 a prospective investor. Please read the Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpa.com, by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.**

### Average Annual Total Returns (%)

| As of Date: 9/30/2021 | QTD | YTD | 1 Year | 3 Years | 5 Years | 10 Years* |
|---|---|---|---|---|---|---|
| FPA U.S. Core Equity Fund, Inc. ('Fund') | -0.13 | 13.75 | 23.57 | 16.86 | 14.39 | 13.74 |
| S&P 500 | 0.58 | 15.92 | 30.00 | 15.99 | 16.90 | 16.63 |

Periods greater than one year are annualized. Fund performance is shown net of all fees and expenses. Fund performance is calculated on a total return basis which includes reinvestment of all distributions. Fund performance does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares, which would lower these returns. Comparison to any index is for illustrative purposes only. An investor cannot invest directly in an index. The Fund does not include outperformance of any index or benchmark in its investment objectives.

**Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. The Fund's total expense ratio is 1.34% and the net expense ratio is 1.22%, as of its most recent prospectus. Current month-end performance data, which may be lower or higher than the performance data quoted, may be obtained at www.fpa.com or by calling toll-free, 1-800-982-4372.**

The Investment Advisory Agreement ("IAA") between the Fund and First Pacific Advisors, LP (the "Adviser" or "FPA"), the Fund's investment adviser, requires FPA to reduce its investment advisory fee to the extent necessary to reimburse the Fund for any annual expenses (exclusive of interest, taxes, the cost of brokerage and research services, legal expenses related to portfolio securities, and extraordinary expenses such as litigation, merger, reorganization or recapitalization) in excess of 1.50% of the first $30 million and 1% of the remaining average net assets of the Fund for the year. This agreement is coterminous with the IAA, and Fund's Board of Trustees reviews the IAA annually as of Oct. 1 each year. The IAA may be terminated by the Fund's Board of Trustees, by the vote of a majority of the Fund's shareholders, or by the Adviser.

* On September 1, 2015, the Fund changed its name to FPA U.S. Value Fund, Inc. The current portfolio manager assumed management of the Fund on September 1, 2015. Contemporaneous with this change, the Fund transitioned to its current investment strategy. Performance prior to September 1, 2015 reflects the performance of the prior portfolio manager and investment strategy. Performance prior to September 1, 2015 is not indicative of performance for any subsequent periods. The transition took place during the time period from September 1, 2015 to September 30, 2015.

Effective December 28, 2020, the Fund changed its name to FPA U.S. Core Equity Fund, Inc., from FPA U.S. Value Fund, Inc. and adopted the S&P 500 as its formal benchmark.

***Please see important disclosures at the end of the commentary.***

## Introduction

In the third quarter, the FPA U.S. Core Equity Fund, Inc.'s ("Fund") performance was -0.13% (0.14% before fees and expenses) compared to the 0.58% total return of the S&P 500 Index ("Index" or "S&P 500"), the Fund's benchmark.

Despite the short-term underperformance of the Fund, we believe we have created a better version of the Index by overweighting what we think is good, eliminating what is bad and adding other high quality foreign and U.S. companies that are not in the Index. From the time we changed our portfolio construction process in Q4 2017 and further refined it in 2018, we believe this has helped the Fund outperform the S&P 500's total return over the past three years with an annualized return over this time period of 16.86% (18.28% before fees and expenses) compared to the Index's 15.99%.[1]

We think there is a portion of the Index that is high quality and worthy of investing in, but at the same time there is an even larger portion that one should avoid due to our view that those companies will struggle to grow at an above average rate. As a result, we accomplished this outperformance over the past three years with a reasonably diversified portfolio that had an approximate 40% overlap with the Index.

We continue to believe secularly growing mid- to large-capitalization companies trading at attractive valuations will remain a favorable place to invest for the long-term—especially relative to U.S. Treasuries and other investment alternatives.

## Portfolio Commentary

During the third quarter, we continued to make some changes to the portfolio to seek to best position it for future success. To that end we eliminated four positions that made up 1.2% of the September 30, 2021 portfolio, reduced the weighting of the 83 remaining positions by 2.0% to 96.5%, and added 24 new positions representing 2.9% of the September 30, 2021 portfolio. These new positions are in companies we have been following and that were on our wish list to purchase. Most are not at full position sizes yet due to valuation, and thus we are prepared to add to them should we get the opportunity.

As of September 30, 2021, the Fund was invested in 107 companies (73 of which are disclosed and made up 94.4% of the portfolio, excluding cash), including 56 disclosed investments that are in the S&P 500, which made up 86.4% of the portfolio. Moreover, the 56 disclosed positions in common made up 40.8% of the S&P 500's weighting as of September 30, 2021. A majority of the 56 positions were overweight in the Fund relative to the Index. The Fund's remaining 17 disclosed investments were mid- to large-capitalization U.S. and foreign companies. Combined, those 17 companies made up 8.1% of the portfolio.

In terms of geography, 91.3% of the disclosed portfolio was in U.S. companies, while 3.2% was in foreign equities, as of September 30, 2021. By market capitalization, 93.9% of the disclosed portfolio was invested in large-cap companies with market values above $10 billion, with nearly 70% invested in mega-caps (companies with market values above $200 billion). The Fund's weighted average market cap was approximately $828 billion, while the Fund's median market cap was approximately $65 billion.

Regarding portfolio concentration, the Fund's top five positions made up 39.5% of the Fund compared to approximately 23% for the S&P 500. The Fund's top 10 positions made up approximately 50% of the portfolio versus approximately 28% for the Index. Over time, our goal is to reduce the weighting of some of the Fund's largest positions and to increase some of the Fund's smallest ones as our conviction grows.

From an industry exposure standpoint, the portfolio had disclosed investments in eight of the 11 sectors in the S&P 500. Combined, those eight sectors made up approximately 92% of the S&P 500 and 94% of

[1] See pages 7-8 for description of the process https://fpa.com/docs/default-source/funds/fpa-u.s.-value-fund/quarterly-webcasts/fpa-us-value-webcast-2018-06_watermark.pdf?sfvrsn=c2fa949d_4

the Fund's disclosed portfolio. Relative to the S&P 500, the portfolio is overweight information technology, communication services and consumer discretionary, and underweight financials, health care, industrials, consumer staples, and materials. At the end of the quarter, the Fund did not have any disclosed investments in utilities, energy, and real estate. Collectively, those three sectors made up approximately 8% of the S&P 500.

| **Sector** | **FPA U.S. Core Equity Fund** | **S&P 500** |
| --- | --- | --- |
| Information Technology | 37.2% | 27.6% |
| Communication Services | 24.5% | 11.3% |
| Consumer Discretionary | 16.5% | 12.4% |
| Health Care | 10.9% | 13.3% |
| Financials | 3.1% | 11.4% |
| Consumer Staples | 1.1% | 5.8% |
| Industrials | 1.0% | 8.0% |
| Materials | 0.1% | 2.5% |
| Energy | 0.0% | 2.7% |
| Real Estate | 0.0% | 2.6% |
| Utilities | 0.0% | 2.5% |
| **Total** | **94.4%** | **100.0%** |
| **Other** | **4.9%** | |
| **Cash and equivalents (net of liabilities)** | **0.6%** | |

*Source: FPA and Mellon. As of September 30, 2021. Totals might not add up to 100% due to rounding. The "Other" category is the Fund's undisclosed positions. Portfolio composition will change due to ongoing management of the Fund.*

Compared to the broader market, we believe the Fund's portfolio is of higher quality and has greater potential for revenue and earnings growth.[2]

| | **FPA U.S. Core Equity Fund** | **S&P 500** |
| --- | --- | --- |
| Large Capitalization Holdings % of Portfolio | 93.9% | 99.0% |
| Top 5 Holdings % of Portfolio | 39.5% | 23.2% |
| Top 10 Holdings % of Portfolio | 50.1% | 28.1% |
| Foreign Securities % of Portfolio | 3.2% | 0.0% |
| 12-Month Forward P/E[3] | 34.1x | 26.7x |
| Price/Book[4] | 10.3x | 4.6x |
| Return on Equity[5] | 30.1% | 27.4% |
| EPS[6] Growth Historical (2-year, $-weighted median) | 27.5% | 19.8% |
| EPS Growth Forecast (2-year, median) | 16.6% | 11.4% |

[2] The portfolio manager believes a high-quality company is one that is able to generate a return on capital in excess of its cost of capital for sustained periods of time.

[3] The forward price-to-earnings (P/E) ratio is derived by dividing the price of the stock by the estimated one year of future per-share earnings and is used as a relative value comparison for a company's shares. Forward P/E numbers are estimates and subject to change.

[4] Price/Book ratio is the current closing price of the stock divided by the latest quarter's book value per share.

[5] Return on Equity measures a portfolio company's profitability by dividing net income before taxes less preferred dividends by the value of stockholders' equity.

[6] EPS, or Earnings per Share, is the portion of a company's profit allocated to each share of common stock.

| | | |
|---|---|---|
| Revenue Growth Historical (2-year, $-weighted median) | 17.9% | 10.4% |
| Revenue Growth Forecast (2-year, median) | 18.9% | 14.5% |
| Debt/Equity[7] | 1.1x | 1.4x |
| Median Market Capitalization[8] (billions) | $65.5 | $30.7 |
| Weighted Average Market Cap (billions) | $828.2 | $564.9 |

*Source: FPA, Mellon, Capital IQ. Data as of September 30, 2021. Fund statistics for '% of Portfolio' holdings are based on net assets. Portfolio composition will change due to ongoing management of the Fund.*

### Q3'21 Winners and Losers[9]

| Winners | Performance Contribution | Losers | Performance Contribution |
|---|---|---|---|
| Alphabet | 0.53% | Tencent | -0.41% |
| Microsoft | 0.37% | Adidas | -0.36% |
| ServiceNow | 0.29% | Amazon.com | -0.35% |
| Salesforce.com | 0.27% | PayPal | -0.30% |
| Netflix | 0.27% | Facebook | -0.18% |

One of the largest detractors this quarter was Adidas (XETR: ADS), whose share price declined 13.4% in local currency (EUR) during this period.[10] Both Nike's and Adidas' businesses have been impacted by the Covid-19 pandemic and related supply chain disruptions. Adidas is one of the few large-capitalization, high-quality, globally recognized brand businesses (founded in 1949) I am aware of in which the Covid-19 pandemic has structurally improved its long-term profitability and growth, but has a stock price (in local currency) that (as of 9/30/21) is approximately 6% below where it ended 2019. This is in part due to its revenue being down from 2019 to the trailing 12 months ending 6/30/21 by approximately 5% (in local currency). Compare that to Nike whose stock price is up about 43% from that same point in part due to revenue increasing 13.9% in FY21 vs FY19.[11]

The Covid-19 pandemic has improved the structural profitability of Adidas' business for two main reasons. First, the acceleration in its business mix toward the higher margin direct-to-consumer (DTC) channel. Second, the greater free time people have working increasingly from home has resulted in people playing more sports such as tennis, golf, running and general fitness training. In a post pandemic world, where many corporate offices are implementing a hybrid work model, we believe this trend toward more active lifestyles will continue. We think this bodes well for Adidas as well as other sports/active apparel companies such as Nike and Lululemon, which are portfolio holdings as well.[12]

Even though Adidas does not sponsor the same level of depth as Nike when it comes to superstar athletes, it still has many big names behind major sports categories. Additionally, Adidas has built

[7] Debt/Equity (D/E) Ratio is calculated by dividing a company's total liabilities by its shareholder equity. These numbers are available on the balance sheet of a company's financial statements. The ratio is used to evaluate a company's financial leverage.

[8] Market Cap, short for market capitalization, refers to the total dollar market value of a company's outstanding shares.

[9] Reflects top contributors and top detractors to the Fund's performance based on contribution-to-return. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. This is not a recommendation for a specific security and these securities may not be in the Fund at the time you receive this report. The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. A copy of the methodology used and a list of every holding's contribution to the overall Fund's performance during the quarter is available by contacting FPA at crm@fpa.com. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed. For a full list of holdings and weights by percentage of total assets please view the holdings report at the end of this Commentary.

[10] Based on the percentage of Adidas' share price change from July 1, 2021 to September 30, 2021 in Euro (EUR) currency. This share price change may not equate with the performance of the holding in the Fund. As of September 30, 2021, Adidas represented 2.0% of the Fund's total assets.

[11] Fiscal year end May 31.

[12] As of 9/30/2021, Nike made up 2.1% of net assets and Lululemon made up 0.3%.

successful partnerships with the likes of Kanye West's Yeezy, Beyonce's Ivy Park and Pharrell William's namesake brand.

Adidas has consistently traded at a valuation discount to Nike over the decade prior to the Covid-19 pandemic. From 2010-2019, Adidas traded at a 12% discount to Nike on a forward P/E basis and now stands at a similar discount.[13] The key question is whether a discount is justified and if so, to what degree. Looking at the decade prior to 2020, Adidas grew its revenue at an 8.6% CAGR compared to Nike's 7.4%. Adidas' operating margin in 2019 was 11.3% (13.6% EBITDA margin) compared to Nike's FY2019 operating margin of 12.2% (14.0% EBITDA margin). And if you back out the much lower margin Reebok business (which Adidas is selling to Authentic Brands Group for up to €2.1 billion and is expected to close in the first quarter of 2022), the operating margin of the core Adidas business was more in-line with Nike's despite Nike having approximately 50% higher revenue in 2019.[14]

Looking at geographic mix can help one understand why Adidas has underperformed Nike so much since the end of 2019. Looking at their respective businesses, based on 2019, unsurprisingly Adidas has a higher European mix (36.5% v. 25.1%) whereas Nike has a higher North America mix (40.7% v. 22.5%). Asia Pacific/Latin America mix for Adidas is 41.0% compared to Nike at 34.3%. It is widely known that due to COVID-19, Europe's economy has fared much worse than North America and is still very much in the doldrums in part due to lower vaccine distribution in the first half of 2021. However, if we look at how fast the U.S. has rebounded over the past several months as vaccines have been increasingly administered to the U.S. population, I think it is reasonable to believe Europe's economy should follow the same path over the coming year. Regardless, Adidas' exposure to Europe relative to Nike's is only 11.4% more—in my opinion, not enough to justify the big delta in stock price performance since the end of 2019.

Even though Adidas' management appears focused on growing the business in the right manner by focusing on the DTC channel and its core brands as well as investing the necessary resources behind them, its margin targets over the coming years appear to be very conservative. Adidas' 2019 core (ex-Reebok) operating margin was approximately 12% on €22 billion in revenue. Meanwhile management has a 2025 operating margin target of 12%-14% on approximately €30 billion in revenue. Management expects DTC to make up about half or €15 billion of the business of which €8-9 billion is e-commerce.

When compared to other DTC businesses, Adidas' DTC business should have approximately twice the operating margin of its traditional high-single digit margin wholesale business. For example, Lululemon's business, which is entirely DTC, had a 22.3% operating margin on nearly $4 billion in revenue in 2019. Meanwhile Foot Locker had an 8.9% operating margin in 2019 on $8 billion in revenue—we believe Adidas could capture some of this type of margin by selling more of its product DTC. Therefore, it seems reasonable if Adidas achieves a 50% DTC mix on €30 billion in 2025 revenue, I would expect its normalized operating margin to be approximately mid-teens.

More importantly, Adidas' higher margin DTC business mix should continue to grow and I believe could easily be 60%+ by the end of this decade. The flywheel effect of a higher operating margin on a growing revenue base would allow it to reinvest more into its brand/endorsements/DTC platforms such that it could continue to grow unit volumes above global population growth and average unit retail (AUR) pricing at least in-line with inflation for many years to come.

Taking a step back, the global market for shoes was $384.2 billion in 2020 and is estimated to be $440.0 billion in 2026—a 2.3% CAGR.[15] The global apparel market is projected to grow from $1.5 trillion in 2020 to $2.25 trillion by 2025—a 8.5% CAGR.[16] Combined, Nike and core Adidas had sales of approximately $60 billion in 2020. The companies do not break out how much of their sales is shoes relative to apparel. Bottom line, Nike and Adidas have about 3.2% of the combined global shoes and apparel market. If you

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[13] Source for all Adidas, Nike, Lululemon and Foot Locker data and statistics: Company financials, Capital IQ

[14] https://www.adidas-group.com/en/media/news-archive/press-releases/2021/adidas-sell-reebok-authentic-brands-group/

[15] https://www.globenewswire.com/en/news-release/2021/07/12/2261429/0/en/Global-Footwear-Market-and-Foot-Care-Products-Market-Size-2021-By-Trends-Evaluation-Consumer-Demand-Consumption-Recent-Developments-Strategies-Leading-Players-Updates-Market-Impact.html

[16] https://www.statista.com/topics/5091/apparel-market-worldwide/

believe in the industry's global growth as well as their ability to continue to take share then I think there is plenty of room for both Nike and Adidas to succeed.

This is not a zero-sum game. We believe two dominant athletic shoe and apparel companies can easily coexist. It is partly why companies like Under Armour and Lululemon can grow to the approximate $5 billion each has in sales now from a decade ago when they were a fraction of their current sizes and not really impacting the above average growth rates of Nike and Adidas. The categories these companies operate in are growing faster than the overall shoe and apparel market. And part of that is because the line between what clothing and shoes can be worn for sports as well as for casual, everyday life is increasingly blurring—and in my view will only do so more as a growing number of people work, at least partially, from home in this increasingly globally adopted work from anywhere model.

Among the Fund's biggest winners was Netflix (NASDAQ: NFLX), which appreciated 15.5% during the third quarter.[17] I continue to be very bullish on NFLX's long-term potential. The market can often take a short-term view and I believe such is the case with how it trades NFLX from quarter to quarter, typically based on how many paid net subscriptions it garners.

I believe the market may define NFLX's total addressable market too narrowly by focusing on the approximate 74 million of pay TV households in the U.S. and one billion pay TV households across the globe or about 700 million ex-China.[18],[19] Based on those denominators, NFLX's paid memberships of approximately 74 million in North America and 135 million throughout the rest of the world (as of 6/30/21) would point to a business that is much more mature (at around 30% penetrated) than it likely is.[20]

Given how people are increasingly communicating with one another and consuming digital content via smartphones, it is this device that helps define many digital end markets. Excluding China where NFLX is currently banned, there are approximately 5.5 billion smartphones out of the approximate ex-China global population of 6.5 billion people for a penetration rate of about 84.5%.[21] Another approximate 700 million ex-China smartphone users are expected to be added to the ex-China market between now and 2025.[22] [23] Through this lens, NFLX has penetrated less than 4% of the global ex-China market. And the ex-China addressable market is expected to grow by over 10% through 2025.

While there is plenty of competition for NFLX including other streaming services such as Disney+ and Hulu, the competition is much broader than that when one factors in other traditional TV viewing as well as free, ad-supported video such as YouTube.[24] Streaming now has 27% of total U.S. TV time compared to barely anything a decade ago.[25] And NFLX enjoyed 7% of US viewership time in June 2021 whereas Disney+ for example, had just 2% share.[26] While a NFLX subscription costs about twice as much as Disney+, the viewership share was approximately 3.5x greater in June 2021. This helps explain why NFLX has been able to raise its pricing in North America well above inflation—most recently seeing a 9% YoY increase in average revenue per membership in the first half of 2021.[27]

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[17] Based on the percentage of Netflix share price change from July 1, 2021 to September 30, 2021 in USD currency. This share price change may not equate with the performance of the holding in the Fund. As of September 30, 2021, Netflix represented 2.0% of the Fund's total assets.

[18] https://www.statista.com/statistics/251268/number-of-pay-tv-households-in-the-us/. "Pay TV" households are those households that use a service providing noncommercial television programming (such as recent movies and entertainment specials) by means of a scrambled signal to subscribers who are provided with a decoder.

[19] https://www.statista.com/topics/4985/pay-tv-worldwide/#:~:text=Pay%20TV%2C%20which%20refers%20to,for%20news%20and%20entertainment%20worldwide.&text=In%202020%2C%20the%20number%20of,at%20least%20another%20five%20years.

[20] https://s22.q4cdn.com/959853165/files/doc_financials/2021/q2/FINAL-Q2-21-Shareholder-Letter.pdf

[21] https://www.bankmycell.com/blog/how-many-phones-are-in-the-world

[22] https://www.statista.com/statistics/330695/number-of-smartphone-users-worldwide/

[23] https://www.statista.com/statistics/546618/number-pay-tv-subscribers-china/

[24] https://s22.q4cdn.com/959853165/files/doc_financials/2021/q2/FINAL-Q2-21-Shareholder-Letter.pdf

[25] https://s22.q4cdn.com/959853165/files/doc_financials/2021/q2/FINAL-Q2-21-Shareholder-Letter.pdf

[26] https://s22.q4cdn.com/959853165/files/doc_financials/2021/q2/FINAL-Q2-21-Shareholder-Letter.pdf

[27] https://s22.q4cdn.com/959853165/files/doc_financials/2021/q2/FINAL-Q2-21-Shareholder-Letter.pdf

Regarding its international markets, NFLX has not been taking price up nearly as much in order to help accelerate adoption of its service since the market opportunity is so large. I believe it will be successful in doing so if it continues to do a good job of giving consumers a large breadth of ad-free quality content to binge. And as it gains more global subscribers that are highly engaged with its service, I expect that it should be able to increase pricing at least in-line with inflation while the cost per membership should come down over time as it is able to leverage growing content costs over a larger membership base. This will hopefully translate into continued EPS growth.

## Closing

I am optimistic that the Fund will generate good absolute and relative returns compared to the S&P 500 going forward.

We look forward to delivering value for our fellow shareholders. Thank you for your confidence and continued support.

Respectfully submitted,

Gregory R. Nathan
Portfolio Manager
October 2021

## Important Disclosures

This Commentary is for informational and discussion purposes only and does not constitute, and should not be construed as, an offer or solicitation for the purchase or sale of any securities, products or services discussed, and neither does it provide investment advice. Any such offer or solicitation shall only be made pursuant to the Fund's Prospectus, which supersedes the information contained herein in its entirety. This Commentary does not constitute an investment management agreement or offering circular.

The views expressed herein and any forward-looking statements are as of the date of this 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.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities or sectors are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, the Adviser, or the distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security or sector examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

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. The information and data contained herein 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.

The information contained herein is not complete, may change, and is subject to, and is qualified in its entirety by, the more complete disclosures, risk factors, and other information contained in the Fund's Prospectus and Statement of Additional Information. The information is furnished as of the date shown. No representation is made with respect to its completeness or timeliness. The information is not intended to be, nor shall it be construed as, investment advice or a recommendation of any kind.

Certain statements contained in this presentation may be forward-looking and/or based on current expectations, projections, and information currently available. Actual events or results may materially differ from those we anticipate, or the actual performance of any investments described herein may differ from those reflected or contemplated in such forward-looking statements, due to various risks and uncertainties. We cannot assure future results and disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. Such statements may or may not be accurate over the long-term. Statistical data or references thereto were taken from sources which we deem to be reliable, but their accuracy cannot be guaranteed.

The reader is advised that the Fund's investment strategy includes active management with corresponding changes in allocations from one period of time to the next. Therefore, any data with respect to investment allocations as of a given date is of limited use and may not be reflective of the portfolio manager's more general views with respect to proper geographic, instrument and/or sector allocations. The data is presented for indicative purposes only and, as a result, may not be relied upon for any purposes whatsoever.

Investments, including investments in mutual funds, carry risks and investors may lose principal value. Capital 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. Foreign investments, especially those of companies in emerging markets, can be riskier, less liquid, harder to value, and more volatile than investments in the United States. Adverse political and economic developments or changes in the value of foreign currency can make it more difficult for the Fund to value the securities. Differences in tax and accounting standards, difficulties in obtaining information about foreign companies, restrictions on receiving investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations, can all add to the risk and volatility of foreign investments.

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.

Please refer to the **Fund's Prospectus** for a complete overview of the primary risks associated with the Fund.

In making any investment decision, you must rely on your own examination of the Fund, including the risks involved in an investment. Investments mentioned herein may not be suitable for all recipients and in each case, potential investors are advised not to make any investment decision unless they have taken independent advice from an appropriately authorized advisor. An investment in any security mentioned herein does not guarantee a positive return as securities are subject to market risks, including the potential loss of principal. You should not construe the contents of this document as legal, tax, investment or other advice or recommendations.

## Index / Other Definitions

The Fund will be less diversified than the indices noted herein, and may hold non-index securities or securities that are not comparable to those contained in an index. Indices may hold positions that are not within the Fund’s investment strategy. Indices are unmanaged and do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities and which would reduce the performance in an actual account. An investor cannot invest directly in an index.

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.

*The Fund is distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.*

| TICKER | PRINCIPAL/ SHARES | SECURITY | COUPON RATE (%) | MATURITY DATE | MKT PRICE ($) | MKT VALUE ($) | % OF NET ASSET VALUE |
|---|---|---|---|---|---|---|---|
| | | **COMMON STOCK (LONG)** | | | | | |
| ABT | 3,829 | ABBOTT LABORATORIES | | | 118.13 | 452,320 | 0.6% |
| ACN | 5,065 | ACCENTURE PLC-CL A* | | | 319.92 | 1,620,395 | 2.1% |
| ATVI | 6,693 | ACTIVISION BLIZZARD INC | | | 77.39 | 517,971 | 0.7% |
| ADS GY | 4,942 | ADIDAS AG* | | | 314.84 | 1,555,937 | 2.0% |
| ADBE | 2,835 | ADOBE INC | | | 575.72 | 1,632,166 | 2.1% |
| GOOG | 2,694 | ALPHABET INC-CL C | | | 2,665.31 | 7,180,345 | 9.3% |
| AMZN | 1,750 | AMAZON.COM INC | | | 3,285.04 | 5,748,820 | 7.4% |
| ANTM | 1,915 | ANTHEM INC | | | 372.80 | 713,912 | 0.9% |
| AON | 839 | AON PLC | | | 285.77 | 239,761 | 0.3% |
| APO | 5,880 | APOLLO GLOBAL MANAGEMENT INC | | | 61.59 | 362,149 | 0.5% |
| AAPL | 34,617 | APPLE INC | | | 141.50 | 4,898,306 | 6.3% |
| ADSK | 5,560 | AUTODESK INC | | | 285.17 | 1,585,545 | 2.0% |
| AVLR | 1,220 | AVALARA INC | | | 174.77 | 213,219 | 0.3% |
| BLK | 305 | BLACKROCK INC | | | 838.66 | 255,791 | 0.3% |
| BX | 4,146 | BLACKSTONE GROUP INC/THE-A | | | 116.34 | 482,346 | 0.6% |
| CHTR | 430 | CHARTER COMMUNICATIONS INC-A | | | 727.56 | 312,851 | 0.4% |
| NET | 2,473 | CLOUDFLARE INC - CLASS A | | | 112.65 | 278,583 | 0.4% |
| CMCSA | 28,460 | COMCAST CORP-CLASS A | | | 55.93 | 1,591,768 | 2.1% |
| STZ | 451 | CONSTELLATION BRANDS INC-A | | | 210.69 | 95,021 | 0.1% |
| CRWD | 1,055 | CROWDSTRIKE HOLDINGS INC - A | | | 245.78 | 259,298 | 0.3% |
| DHR | 2,134 | DANAHER CORP | | | 304.44 | 649,675 | 0.8% |
| DOCU | 790 | DOCUSIGN INC | | | 257.43 | 203,370 | 0.3% |
| EW | 1,818 | EDWARDS LIFESCIENCES CORP | | | 113.21 | 205,816 | 0.3% |
| EA | 1,520 | ELECTRONIC ARTS INC | | | 142.25 | 216,220 | 0.3% |
| EL | 897 | ESTEE LAUDER COMPANIES-CL A | | | 299.93 | 269,037 | 0.3% |
| FB | 15,993 | FACEBOOK INC-CLASS A | | | 339.39 | 5,427,864 | 7.0% |
| GDDY | 4,534 | GODADDY INC - CLASS A | | | 69.70 | 316,020 | 0.4% |
| HCA | 965 | HCA HEALTHCARE INC | | | 242.72 | 234,225 | 0.3% |
| HD | 4,860 | HOME DEPOT INC | | | 328.26 | 1,595,344 | 2.1% |
| HON | 1,540 | HONEYWELL INTERNATIONAL INC | | | 212.28 | 326,911 | 0.4% |
| HUM | 1,678 | HUMANA INC | | | 389.15 | 652,994 | 0.8% |
| INFO | 2,376 | IHS MARKIT LTD* | | | 116.62 | 277,089 | 0.4% |
| ILMN | 368 | ILLUMINA INC | | | 405.61 | 149,264 | 0.2% |
| INTU | 555 | INTUIT INC | | | 539.51 | 299,428 | 0.4% |
| ISRG | 592 | INTUITIVE SURGICAL INC | | | 994.15 | 588,537 | 0.8% |
| IQV | 3,385 | IQVIA HOLDINGS INC | | | 239.54 | 810,843 | 1.0% |
| KKR | 6,174 | KKR & CO INC -A | | | 60.88 | 375,873 | 0.5% |
| LMT | 594 | LOCKHEED MARTIN CORP | | | 345.10 | 204,989 | 0.3% |
| OR FP | 550 | L'OREAL* | | | 413.36 | 227,346 | 0.3% |
| LOW | 4,300 | LOWE'S COS INC | | | 202.86 | 872,298 | 1.1% |
| LULU | 540 | LULULEMON ATHLETICA INC* | | | 404.70 | 218,538 | 0.3% |
| MC FP | 413 | LVMH MOET HENNESSY LOUIS VUI* | | | 718.29 | 296,655 | 0.4% |
| MA | 4,620 | MASTERCARD INC - A | | | 347.68 | 1,606,282 | 2.1% |
| MTCH | 1,891 | MATCH GROUP INC | | | 156.99 | 296,868 | 0.4% |
| MDT | 2,900 | MEDTRONIC PLC* | | | 125.35 | 363,515 | 0.5% |
| MSFT | 25,937 | MICROSOFT CORP | | | 281.92 | 7,312,159 | 9.4% |
| MCO | 385 | MOODY'S CORP | | | 355.11 | 136,717 | 0.2% |
| MSCI | 480 | MSCI INC | | | 608.34 | 292,003 | 0.4% |
| NFLX | 2,536 | NETFLIX INC | | | 610.34 | 1,547,822 | 2.0% |
| NKE | 11,205 | NIKE INC -CL B | | | 145.23 | 1,627,302 | 2.1% |
| NVDA | 5,896 | NVIDIA CORP | | | 207.16 | 1,221,415 | 1.6% |
| OKTA | 675 | OKTA INC | | | 237.34 | 160,205 | 0.2% |
| ORLY | 848 | O'REILLY AUTOMOTIVE INC | | | 611.06 | 518,179 | 0.7% |
| PYPL | 6,320 | PAYPAL HOLDINGS INC | | | 260.21 | 1,644,527 | 2.1% |
| QCOM | 2,788 | QUALCOMM INC | | | 128.98 | 359,596 | 0.5% |
| SPGI | 70 | S&P GLOBAL INC | | | 424.89 | 29,742 | 0.0% |
| CRM | 6,040 | SALESFORCE.COM INC | | | 271.22 | 1,638,169 | 2.1% |
| NOW | 2,650 | SERVICENOW INC | | | 622.27 | 1,649,016 | 2.1% |
| SHW | 275 | SHERWIN-WILLIAMS CO/THE | | | 279.73 | 76,926 | 0.1% |

| TICKER | PRINCIPAL/ SHARES | SECURITY | COUPON RATE (%) | MATURITY DATE | MKT PRICE ($) | MKT VALUE ($) | % OF NET ASSET VALUE |
|---|---|---|---|---|---|---|---|
| SPOT | 535 | SPOTIFY TECHNOLOGY SA* | | | 225.34 | 120,557 | 0.2% |
| SFM | 12,850 | SPROUTS FARMERS MARKET INC | | | 23.17 | 297,735 | 0.4% |
| SBUX | 2,910 | STARBUCKS CORP | | | 110.31 | 321,002 | 0.4% |
| SYK | 815 | STRYKER CORP | | | 263.72 | 214,932 | 0.3% |
| TTWO | 1,270 | TAKE-TWO INTERACTIVE SOFTWRE | | | 154.07 | 195,669 | 0.3% |
| TCEHY | 6,715 | TENCENT HOLDINGS LTD-UNS ADR* | | | 59.77 | 401,356 | 0.5% |
| TMO | 2,279 | THERMO FISHER SCIENTIFIC INC | | | 571.33 | 1,302,061 | 1.7% |
| TWTR | 5,626 | TWITTER INC | | | 60.39 | 339,754 | 0.4% |
| UNH | 4,085 | UNITEDHEALTH GROUP INC | | | 390.74 | 1,596,173 | 2.1% |
| V | 7,230 | VISA INC-CLASS A SHARES | | | 222.75 | 1,610,483 | 2.1% |
| DIS | 4,900 | WALT DISNEY CO/THE | | | 169.17 | 828,933 | 1.1% |
| WLTW | 940 | WILLIS TOWERS WATSON PLC* | | | 232.46 | 218,512 | 0.3% |
| ZTS | 2,405 | ZOETIS INC | | | 194.14 | 466,907 | 0.6% |
| ZS | 1,095 | ZSCALER INC | | | 262.22 | 287,131 | 0.4% |
| | | OTHER COMMON STOCK (LONG) | | | | 3,826,186 | 4.9% |
| | | **TOTAL COMMON STOCK (LONG)** | | | | **76,922,673** | **99.4%** |
| | | **TOTAL INVESTMENT SECURITIES** | | | | **76,922,673** | **99.4%** |
| | | **REPURCHASE AGREEMENTS** | | | | | |
| | 628,000 | STATE STREET BANK/FICC REPO | 0.000 | 10/01/2021 | | 628,000 | 0.8% |
| | | **TOTAL REPURCHASE AGREEMENTS** | | | | **628,000** | **0.8%** |
| | | CASH & EQUIVALENTS | | | | (158,421) | -0.2% |
| | | **TOTAL CASH & EQUIVALENTS** | | | | **469,579** | **0.6%** |
| | | **TOTAL NET ASSETS** | | | | **77,392,252** | **100.0%** |
| | | **NUMBER OF LONG EQUITY POSITIONS** | | | | | **73** |

* Indicates foreign security.

Portfolio Holding Disclosures

**You should consider the FPA U.S. Core Equity Fund, Inc.'s ("Fund") investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies, sales charges, and other matters of interest to the prospective investor. Please read the Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpa.com, by email at crm@fpa.com, toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.**

**The Fund's holdings are subject to change.** Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, FPA, or the distributor.

Investments, including investments in mutual funds, carry risks and investors may lose principal value. Capital 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; this may be enhanced when investing in emerging markets. Securities of smaller less well-known companies involve greater risks and they can fluctuate in price more than larger company securities. Groups of stocks, such as value and growth, go in and out of favor which may cause certain equity strategies to underperform other equity strategies. You risk paying more for a security than you received from its sale.

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 management team considers the true business value or because the portfolio management team 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.

On September 1, 2015, the Fund changed its name to FPA U.S. Value Fund, Inc., and the current portfolio manager assumed management of the Fund on that date. Contemporaneous with this change, the Fund transitioned to its current investment strategy. Effective December 28, 2020, the Fund’s name was changed from FPA U.S. Value Fund, Inc. to FPA U.S. Core Equity Fund, Inc.

Please refer to the **Fund's Prospectus** for a complete overview of the primary risks associated with the Fund.

**The Fund is distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.**