Brande: Good afternoon and thank you for joining us today. We would like to welcome you to the 2016 Second Quarter FPA U.S. Value Fund conference call. My name is Brande Winget and I help oversee Client Service here at FPA. In just a moment you will hear from Gregory Nathan, the Portfolio Manager of the Fund. As a reminder, Greg took on management of the Strategy having launched the Fund on September 1st, 2015. It is my pleasure to now hand it over to you, Greg.

Greg: Thank you, Brande, for that introduction. The primary objective of the U.S. Value Fund is the growth of capital over the long term. My goal is to outperform the S&P 500 over full market cycles. Here is a quick summary of my professional background and experience, as well as my alignment of interests with fellow shareholders.

Now I'd like to walk you through my investment philosophy. The most important thing in investing is to avoid permanent capital impairment. Permanent capital impairment can result from investing in a business whose profitability is structurally declining, paying too high of a multiple for a company, investing in a company with too much financial leverage that can't make it through a tough business cycle without having to restructure. Thus, I focus on finding quality companies in healthy, secularly-growing industries at attractive valuations with low financial leverage. I want the

portfolio to have an appropriate level of diversification, by number of investments and industry exposure.

So how do I find quality companies at attractive valuations? I look for quality companies that appear misunderstood, as well as industries that are out of favor. I define quality as companies with strong and enduring competitive positions, growing businesses within growing industries. A growing industry is key because without it there will be typically poor earnings growth and investment returns. More on this in a minute.

Lastly, I want my companies to have high returns on capital and robust free cash flow generation. I prefer companies with good management. However, often the reason good businesses are offered at attractive prices is because of poor management. Therefore, I will consider such companies, provided there is not a structural impediment to replacing management and there's a large enough discount to my estimate of their intrinsic value. Bottom line, the quality of the business and valuation are *the* most important investment criteria.

I put this slide together to highlight how important it is to invest in a healthy, growing industry. This shows the ten-year performance of eight retailers. There are four categories represented: drugstores, home

improvement, office supplies, and electronics. Each company is a #1 or #2 player in its respective market. As you can see, the four companies that outperformed the S&P 500 over this time period were CVS, Walgreens, Home Depot, and Lowe’s.

These companies operate within secularly-growing industries. Also, the recession allowed these companies to further distance themselves from the competition. Additionally, the two best-performing companies, CVS and Home Depot, are #1 players and benefitted from good management; whereas, Walgreens and Lowe’s have been impacted by various management missteps over the years.

Conversely, the four companies that underperformed the market and they didn't just underperform. An investment in any of these four resulted in permanent capital impairment. This occurred because the electronics and office-supplies industries experienced fundamental changes that impacted the level of demand for its products and how consumers purchase them.

What's worth highlighting is that the delta between the returns of the winners compared to the losers increased dramatically over the last four years. This speaks to the importance of having a long-term view and

time horizon for investing in high-quality companies and growing industries at cheap prices because, ultimately, time is on your side.

Another very key point I want to make is to consider the moment in time from 10 years ago in 2006. If you had the view then that the market was overvalued and there was a housing bubble, you probably would not have invested in anything housing related such as Home Depot or Lowe's. However, since that time, Home Depot is up over 200% and Lowe's is up 150%, which compares very favorably to the S&P 500 up about 50%; and consider that housing starts today are well below what they were 10 years ago.

The point is, regardless if the macroeconomic backdrop is unfavorable or the stock market doesn't appear attractive, if you can find high-quality companies in healthy, secularly-growing industries at attractive valuations, the results should be quite good over time.

Let me walk you through the key parameters as to how the portfolio is constructed. The Fund's multi-cap strategy affords us the ability to invest wherever the best opportunities arise. At least 80% of the portfolio will be invested in U.S. companies. At the same time, I have the ability to make opportunistic foreign investments.

Appropriate diversification: Typically 20 to 40 companies. You should expect the number of positions to increase the cheaper the market is, which can result in more broad-based value across various industries. Individual positions will not exceed 5% of total assets at the time of purchase. Approximate average position size of 3 to 4%. Normally fully invested; the reason for this is the portfolio is made up of what I believe are undervalued, high-quality companies that should compound in value over time. Maximum cash limit of 20%, but will usually not exceed 10% of the portfolio.

Constructing a portfolio begins with idea generation. I find potential investments in multiple ways. Having researched and analyzed various companies and industries for over 15 years, I have a very good knowledge base to pull from. I constantly read various publications, news articles and buy-side, as well as sell-side research. When I'm on vacation, this is also what I do for pleasure. I think it's important for existing and potential shareholders to understand just how much of a passion I have for investing to find the next great company to put into the portfolio.

Once I have identified a potential investment, I conduct thorough research and analysis of the company and its respective industry. What is

the current health and long-term growth rate of the industry? How competitive is the industry? Does the company have a strong and lasting competitive advantage? Is the company operating at an efficient level compared to its key competitors, or is there room for improvement? Does management have a good track record? How is management compensated and by what metrics are they incentivized? How does management allocate capital? Lastly, after building realistic low-base and high-case scenarios, does an investment at current prices provide a good risk-adjusted return?

In summary, this investment process shows just how selective the criteria is for a company to make it into the portfolio. Out of approximately 3,000 companies that could be considered for investment, when factoring in my strict criteria of quality, valuation and growth, there are usually not more than 100 companies that make the cut. This also explains why the Fund concentrates its investments in 20 to 40 companies and so few companies are able to provide the upside potential I seek while minimizing the risk of permanent capital impairment.

Once the portfolio is constructed, there are a few reasons for selling an investment. One would be that the market has recognized the company's quality with a valuation rerating such that estimated future

returns from that new price are projected to be below average. Another is that the investment thesis is proven wrong. In this case, I will not rationalize holding an investment even if the price or valuation has declined. Lastly, a superior opportunity becomes available.

As you can see on this slide, this is a list of the various risk management tools I've put in place to help achieve the Fund's objective of long-term growth of capital. I've already touched on several of these points, so I don't want to be redundant. But one thing worth keeping in mind is that I take a long-term view on the companies and their respective industries when considering an investment. A byproduct of this should be relatively low portfolio turnover over time; however, with the recent volatility in the markets, what isn't cheap one day can quickly become a good value. And vice versa, what is cheap one day can quickly become recognized by the market. Since my mindset is always 'how can I improve the portfolio each and every day, when there is an opportunity that presents itself, I will not hesitate to act and make an upgrade to the portfolio.

After transitioning the portfolio to the U.S. Value Strategy throughout last September, Q2 '16 was my third full quarter as the Portfolio Manager. To be clear, just as I do not make investment

selections based on trying to determine which stocks will perform well on a quarterly basis, I do not believe a three-month, six-month, or even one-year time period is all that relevant in measuring performance. I pick stocks that I believe will outperform over full market cycles, which is typically over a seven-year time period. Please visit our website at FPAFunds.com to read our white paper on full market cycles.

That being said, I will review quarterly performance so you can understand how the portfolio has been and continues to be positioned within the context of the market. Performance in the second quarter can best be described as underwhelming. The Fund net fees and expenses returned -4.86% and underperformed the S&P 500 by 7.32%. A majority of the Fund's underperformance year-to-date can be attributed to the Fund having no exposure to some of the best-performing sectors such as telecomm, utilities and energy. At the same time, the Fund has been overweight some of the worst-performing industries that reside within the consumer discretionary, healthcare and industrial sectors.

The sector performance dispersion in the first half of 2016 has been driven by continually lower interest rates. During the first half of the year, the 10-Year Treasury note declined from 2.27% to 1.49%. Perceived low-risk, above-average dividend-yielding stocks have

benefitted the most as that is where the capital has flowed to from investors who crave yield.

Consider this: Campbell Soup, which currently sports a 2% dividend yield, was up over 25% in the first half of the year. Its P/E multiple at the end of the quarter stood at 30x trailing earnings. And why would trailing earnings be a good way to look at valuation? Because the company hasn't grown its sales or earnings in eight years! The entire return has been driven by multiple expansion due to the decline in interest rates.

Take a look at the utility sector, same thing. This is an industry which has little to no growth and trades at a median multiple of 20x this year's earnings. The sector was up over 21% in the first half of the year. One question I've been asked by investors is, "How will the portfolio perform over time if interest rates remain at or below these historically low levels?" And my answer to that is cheap capital will benefit undervalued, high-quality companies as well. In addition to benefitting from likely multiple expansion, these kinds of companies can reinvest in their businesses at above-average rates of return, make accretive acquisitions, repurchase their shares cheaply and/or pay out increasing dividends.

Capital deployment across the board is aided by a lower cost of capital. Thus, the so-called “invisible hand” will work its magic over time.

In a nutshell, I’d rather have my money invested in high-quality companies trading at 12 to 13x earnings growing at about 12% per year with around a 1.5% dividend yield as opposed to investing in companies that don't grow, trade at 20 to 30x earnings but sport a seemingly enticing 2% dividend yield.

All it takes for these dearly-valued sectors is for the P/E multiples to contract by a couple of points closer to a market average for it to wipe out two to three years of dividend-based returns.

The Fund industry exposures didn't change that much over the past quarter. Consumer discretionary, healthcare and financial sector exposure declined by a little bit. Industrials increased a little over 1% mainly driven by increased investment in airlines, a sector very much out of favor due to some short-term issues tied to yields.

Consumer staples exposure increased by a few percent as the Fund’s investments in Walgreens and CVS grew. Since all the Fund’s consumer staples exposure is tied to these two companies, which derive a majority of their sales and profits from pharmacy-related businesses, the Fund’s effective healthcare exposure increased a couple of percent.

The Fund has a small exposure to the IT sector through its investment in Alphabet, which the sale of Apple helped fund. Lastly, the Fund continues to have no exposure to the energy, utilities, materials and telecommunications sectors.

Regarding the portfolio's holdings, I'd like to point out a few highlights. All companies operate within secularly-growing industries. All companies have a strong position within their respective industry due to various competitive advantages. A majority of these companies are leaders in their respective industry with 9 of these 23 companies operating as #1 players and 19 being in the top 3.

Another point I want to make is that this is a fairly unique portfolio given its construct and that is by design in order to achieve its investment objective of long-term growth of capital with a goal of generating returns in excess of the S&P 500 over full market cycles.

Approximately 15% of the portfolio was invested in 5 companies that are not in the S&P 500, while approximately 10% of net assets were held in cash and equivalents. The remaining 75% of the portfolio was invested in 18 companies that comprise approximately 6% of the S&P 500. Approximately two-thirds of the Fund's exposure resides within 6 industries. Therefore, you should expect in any given quarter, year or

years, the Fund could have materially different performance compared to the market. But what I care about is the Fund's returns over full market cycles because compounded performance is truly what matters at the end of the day.

Here is the portfolio's statistics as of June 30th. As you can see, U.S. Value's portfolio not only trades at a materially cheaper valuation compared to the market, but it is expected to grow faster. While statistics such as ROE show above-average quality, based on my analysis I would argue the portfolio is much higher in quality than the market and is less financially levered on a net-debt-to-EBITA basis. The Fund's estimated discount to its intrinsic value increased from 25% at the end of Q1 to 27% at the end of the second quarter. Lastly, I continue to find the most value in large-cap stocks, which explains why the portfolio's weighted average market cap of disclosed investments was $47.6 billion at quarter end.

Now I'd like to walk you through an investment case study that I presented at FPA's Investor Day last month. I thought it would be interesting to compare two industries with similar characteristics. Both are recession-resistant. Over the past ten years, Industry B grew its operating income every year including through the great financial crisis. Industry A grew through the recession, as well, but had one down year in 2012. B

has grown at more than twice the rate of A which, on a compounded basis, ends up resulting in B growing its profits by 155% compared to A of just 52% over the past 10 years. Both have similarly healthy, unlevered after-tax return on capital in the low- to mid-double digits. Regarding returns through the first half of this year, Industry A has trounced B up 13.2% versus down 9%.

A trades at a huge premium to the market and to its historical average multiple while B trades at a meaningful discount to the market and in line with its historical average. A has a higher dividend yield than B due to its payout ratio that is double that of B's. This is mainly because A is a much more mature industry that does not have the ability to reinvest its capital at above-average rates on return compared to Industry B. So it should be of no surprise that I have zero exposure to Industry A which makes up 6.7% of the S&P 500, while I have 26.7% exposure to Industry B which makes up just 1.5% of the S&P 500.

As you might have guessed, Industry A is a subset of consumer staples which includes beverages and consumer products companies like Coca-Cola, Clorox, Procter & Gamble, et cetera, while Industry B is the pharmaceutical supply chain. This includes the large-scale wholesale distributors and retail/mail pharmacies. These companies make a large

part of the necessary infrastructure to get prescriptions drugs from the manufacturer to the patient in an efficient, cost-effective manner. The pharma supply chain trades at a meaningful discount to the market, yet is expected to grow faster. The Big 3 distributors trade at an approximate 20% discount to the market based on consensus estimates. And this is where the Fund has its largest exposure within the pharma supply chain.

The pharma supply chain's poor stock price performance over the past few quarters shouldn't be a surprise given how they performed in prior election cycles. This current cycle makes it the fourth in a row where we've seen these companies' stock prices perform poorly in the year pre-election. The reason for this is that the sector is an easy political target for candidates to come after, citing high drug prices as an issue they will tackle if elected. However, what you've seen in the prior three cycles is that in the year post-election these companies' stock prices tend to do very well. Hopefully, history will repeat itself again.

These are the three main building blocks as to how you get to well above GDP growth for this industry: You have new-drug therapies, which makes up about a quarter of the 6% growth. You have volume growth from existing therapies, which make up another quarter. And then you

have brand drug price inflation of existing therapies, which makes up about half the industry growth rate.

New drug therapies will be fueled by the growth of the specialty drug industry. Think of expensive-but-novel drugs such as Gilead's Sovaldi, which cures Hepatitis C and saves patients from ultimately much more expensive reactive treatment costs for liver transplants.

Volume growth of existing therapies will be fueled by an aging population and will have the number of people over the age of 65 increase by about 50% over the next 15 years. We are in the first inning of this massive 50-year trend. As you can see, the number of prescriptions taken by the over-65 population is more than 2 times that of the sub-65 population.

Lastly, you have brand-drug price inflation. Despite the headline news and political rhetoric, the reality is that brand-drug prices net of negotiated discounts and rebates by pharmacy benefit managers are in the low- to mid-single digits. For example, in 2015, the average brand price increased 2.8% compared to the average list price increase of 12.4%.

The largest pharma distributors are particularly cheap. In fact, they're trading at the largest discount to the S&P 500 since 2009, which is

one of the reasons why the Fund has such large exposure to this industry. To put this into context, historically the industry has traded at a slight premium to the market but currently trades at an approximate 20% discount.

Large-scale pharma distributors are high-quality businesses. You can see that these three companies have consistently generated around a mid-teens return on invested capital, even during tough financial times like the 2008 and 2009 time-period.

U.S. pharma distribution is a highly-consolidated industry with the top three players controlling over 90% of the market. Generally, when you have a highly-consolidated industry that is secularly growing, it usually leads to rational competition and, therefore, stable pricing.

As you can see here, very few contracts ever change hands. Over the past ten years, only five major contracts changed hands. Two of these were due to large JVs formed between a couple of the biggest drugstore chains and pharma distributors. Excluding that, only three major contracts have changed hands over this time period.

This summarizes the importance of having a long-term view when it comes to investing in high-quality businesses within healthy, secularly-growing industries that are currently out of favor. Had you purchased

Home Depot ten years ago during the housing bubble, you would have had very poor results over the first few years. You would have had zero outperformance over the first five years. But when you take a look at a full market cycle, you see that you have massive outperformance. Home Depot up 250% compared to a 50% return for the market. That's five times the return. That is massive. Year to date the pharma supply chain hasn't performed well, but let's see what happens over the next ten years.

Now, I have some exciting news to share. After a long search I finally found a dedicated analyst, Max Kiely, to join the U.S. Value team. Max recently graduated from the University of Southern California where he earned a Master's Degree in Accounting. Prior to USC, Max worked as an analyst at Hanson Wells Partners and JP Morgan Asset Management. Max earned a Bachelor's Degree in Finance from Wake Forest University. I already have Max working on a particular industry project that is currently out of favor but is high in quality, cheap, very consolidated and has long-term tailwinds. Hopefully, we will be able to identify some promising investment prospects from this work.

Brande: Thank you, Greg. And now we thank you for those of you who have submitted questions during registration, we would like to answer those at this time. So the first question was, "Where are you finding value?"

Greg: Well, I'd say predominately telecomm, utilities, and consumer staples. No, I'm just kidding. In all seriousness, if you look at the portfolio's holdings and exposures I continue to find value in healthcare, particularly within the pharmaceutical supply chain. I'm finding value in various consumer discretionary companies. Additionally, I'm finding value in certain industrials, particularly in the highest-quality airlines. And lastly some financials, particularly within the capital markets base.

Brande: Okay, great, thanks. And another question here about the U.S. discretionary and healthcare sectors: "How insulated do you think they are from a drop in global trade?"

Greg: Sure. So if you look at the Fund's healthcare exposure, a majority of it is tied to the U.S. pharmaceutical supply chain and managed care industry. Very little revenue is generated directly or indirectly from foreign countries. So I would say these companies are fairly immune from changes in global trade. And in terms of consumer discretionary, it really depends on the business; companies like Whirlpool and BMW would be much more affected than mainly domestically-focused businesses like Houghton Mifflin and Madison Square Garden Entertainment. To put the portfolio's geographic revenue generation exposure into perspective, of the invested

portion of the portfolio approximately 82% of revenue exposure comes from North America of which the overwhelming majority is from the U.S.

Brande: Thank you. And I think we're going to gather some other questions here. Let me pause… So an additional question came in: "How do you characterize or attribute the since-inception underperformance versus the broader indices?"

Greg: Sure. Like I said, so September was a transitional month going from the old portfolio to the new portfolio. So if you look at Q4 2015, you'll see the performance of the Fund was fairly close to the S&P. Remember that was a time period where you had a lot of sort of FANG stocks. If you recall, Facebook, Amazon, Netflix, Google really driving performance in '15 as well as particularly in Q4. And in terms of first half, which I went through—I tried to at least go through and in great detail—if you look at the portfolio you'll see that the difference, if you look at the sector exposures, they're quite different than the S&P.

So going back to what I said earlier in commentary, 15% of the portfolio is not in the S&P, 10% is in cash, and 75% of the exposure is captured within 6% of the S&P. So a very, very uniquely-differentiated portfolio compared to the market and I've had no exposure this year to the best-performing sectors: telecomm, utilities, and energy.

And in consumer staples, a good chunk of that industry I had no exposure to. So when you think about consumer staples, telecomm, utilities, huge beneficiaries thus far of a drop in interest rates. And that's why I addressed earlier in the call, over time I believe the companies in our portfolio will benefit from cheap capital if rates remain this low. But in the short term, capital has flowed to these "perceived low-risk, above-average yielding stocks" and unfortunately our portfolio doesn't have many of these types of companies.

Brande: Thank you, Greg. I think that's it as far as any additional questions. Oh, we had one more come in, take a look.

Greg: Sure.

Brande: So one more regarding conflicts between the PBMs and their clients in terms of rebates and any comments on the payer's recent actions to coordinate interest and more disclosure from these PBMs and perhaps working around them.

Greg: Sure. So taking the first part of the question, "Are there any conflicts between PBMs and their clients in terms of rebates," no, there's no conflict. I mean if you go through the financials and read through the footnotes of these companies, you'll know that an overwhelming majority—we're talking over 80% of rebates are actually returned back to

their clients. So interests are very much aligned between the PBMs and their clients.

In terms of the “Recent actions to coordinate interest and more disclosure from the PBMs or perhaps working around them,” so in terms of more disclosure, you know, it’s interesting. There’s the two largest PBMs which are Express Scripts and Caremark—which is part of CVS—have historically not operated in a sort of what we'll call a cost-plus or pass-through model. And the viewpoint there is that basically if you essentially turn over your book of business to them, they can aggregate that client’s book with other clients’ books and do various things in terms of put everyone on the same formulary, negotiate greater discounts from generic manufacturers, greater rebates from brand manufacturers, et cetera.

And the cost-plus model has historically never been as effective as the models that Caremark and Express Scripts have run. And so when you look at someone like Catamaran, who was purchased by UnitedHealthcare’s Optum, they were never competitive. And we talk with lots of different consultants and companies that use these PBMs and basically they were never as effective. But at the end of the day, if people

want a pass-through model, Caremark and Express can certainly do it. It’s just the level of savings won't be nearly as great for the client.

And in terms of coordinating their interests, more companies can do that but I would look at it in terms of comparing it to a mid-tier health plan in size and you'll see that—look, at the end of the day, if they can coordinate they're buying actions they might get a better price. But that would require them to be all in the same contract cycle, all of them to choose the same PBM, all of them to choose to be on the same formulary. So that requires lots of different companies with lots of different HR managers and CFOs and CEOs to coordinate their actions. And if that happens then, sure, there could be incremental discounts. But it’s not enough to move the needle all that much.

And I think this is in reference to the *Barron’s* article on CVS and so I’ll just kind of walk you through the math here. So the PBM business of CVS Health is about a third of the company. If you back out the specialty business, which is about 5% of that—call it 35—back another 5%, which is tied to Medicare Part D. So you've got one-quarter of CVS’ Health business tied to the core PBM operations and of that 25%, half the book is tied to health plans and the other half of the book—actually, almost 60% of the book is tied to health plans—and I’ll call it 40% is tied to large

employers and government entities. So you're talking about maybe 10% of the book of business that would possibly be affected by entities coming together to join forces to collectively bargain.

It's just a very small part of the book that their revenues that would be truly affected by any sort of coordination. So it really, in my opinion, is "much ado about nothing".

Brande: Thank you, Greg. And I think that concludes today's webcast. Thank you for your participation. And 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 week at FPAFunds.com. We urge you to visit the website for additional information on the Fund, such as complete portfolio holdings, historical returns, and after-tax returns.

Following today's webcast, you will have the opportunity to provide your feedback and submit any comments or suggestions. We encourage you to complete this portion of the webcast. We know your time is valuable and we do appreciate and review all of your comments. Please visit FPAFunds.com for future webcast information including replays. We will post the date and time of prospective calls towards the end of each

quarter and expect the calls and to be held three to four weeks following each quarter end.

If you did not receive an invitation via email for today's webcast and would like to receive them, please email us at CRM@FPAFunds.com. We hope that our quarterly commentaries, webcasts, and special commentaries will continue to keep you appropriately informed on the Strategy.

We do want to make sure you understand that the views expressed on this call are as of today, July 26th, 2016, and are subject to change based on market and other conditions. These views may differ from other portfolio managers and analysts of the Firm as a whole and are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any mention of individual securities or sectors should not be construed as a recommendation to purchase or sell such securities and any information provided is not a sufficient basis upon which to make an investment decision.

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