

FPA U.S. Value Fund, Inc. (FPPFX)

First Half 2017 Webcast Presentation

Presented by:
Gregory Nathan

FPA U.S. Value Fund, Inc. – First Half 2017 Summary

Summary:

- Continual lack of widespread value throughout the market
- However, there is a narrow set of healthy, yet out-of-favor industries providing good value to find companies in which to invest
 - The Fund continues to concentrate its exposure there, particularly within the Consumer Discretionary and Health Care related sectors

Today's agenda:

- Fund Highlights
- Investment Philosophy & Process
- Performance & Portfolio Activity
- Question & Answer

Fund highlights

Investment objective

- The primary objective is long-term growth of capital. Current income is a secondary consideration

Goal

- Generate returns in excess of the S&P 500 Index over full market cycles

Investment philosophy

- Avoid permanent capital impairment
- Invest in quality businesses at attractive valuations
- Preference for companies with good management

Portfolio Manager: Gregory R. Nathan

Professional background

- 15 years investment experience
- Was most tenured senior analyst of FPA Contrarian Value
- Key contributor for FPA Contrarian Value
- Deep expertise: the skill and experience to identify quality companies selling for a discount

Professional biography

- 2007-2014: Senior Analyst for FPA Contrarian Value
- 2005-2006: Managing Member of Coldwater Asset Management, LLC
- 2003-2004: Analyst for FPA Contrarian Value
- 2002-2003: Analyst for Lakeway Capital
- 1998-2002: Earned Bachelors Degree in Business Administration (with distinction) from the University of Michigan

Alignment of interests

- Significant personal investment with over \$1mm invested in the Fund

Investment philosophy

Seek to avoid permanent capital impairment

- An investment discipline on business quality, valuation and financial leverage
- Diversification by number of investments and industry exposure

Invest in quality companies at attractive valuations

- Typically looking for **quality companies in healthy, growing industries** that often appear misunderstood and/or out of favor
- Portfolio's returns can benefit from future above-average earnings growth, free cash flow that can be returned to shareholders as well as the potential for expanding earnings multiples

Definition of quality

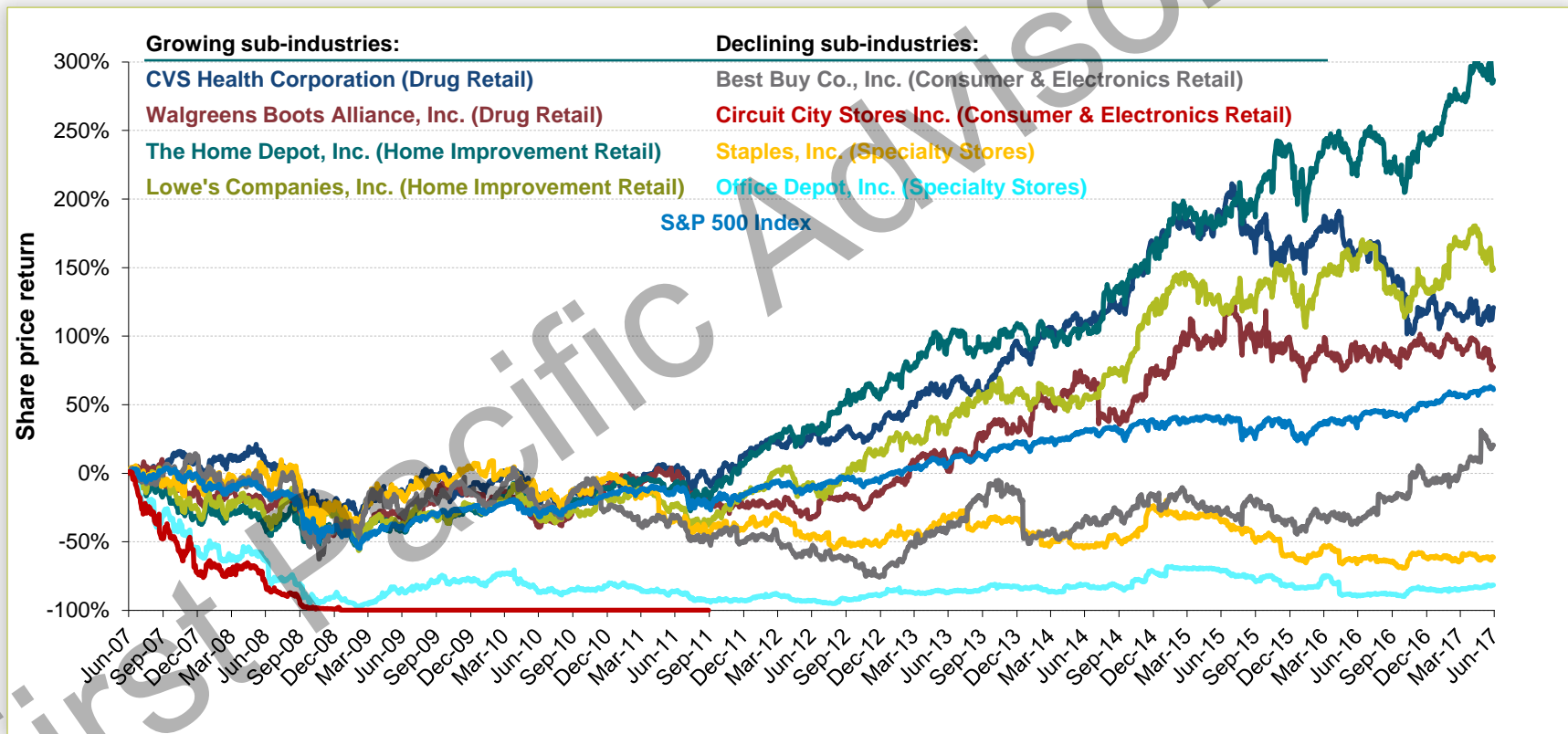
- Strong and enduring competitive positions
- Growing businesses within a growing industry resulting in growing earnings
- Current and/or prospective high returns on capital
- Current and/or prospective robust free cash flow generation

Preference for companies with good management

- However, 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
 - The quality of the business and valuation are the most important investment criteria

Rules of engagement... healthy, growing industry is a must

- Rule #1: **Healthy industry** with supply/demand balance helps ensure rational competition and pricing strength over time
- Rule #2: Companies must operate in **secularly growing industries**
- Rule #3: Identify the **strongest players with sustainable competitive advantages**
- Rule #4: Purchase these companies at **attractive valuations**
 - Follow these four rules = good odds of above average returns over time



Source: Capital IQ. The companies identified above are selected as representative of the sub-industries indicated and not necessarily held or recommended for investment by the Fund or FPA. Past performance is no guarantee of future results. Please refer to the end of the presentation for important disclosures.

Portfolio construction

Broad market capitalization

- The Fund will generally invest in companies with market caps of \$2 billion or more at time of initial purchase
- Allows us to invest wherever the best opportunities arise

U.S. companies

- At least 80% of net assets will be invested in U.S. companies¹

Opportunistic foreign investments

- Up to 20% of net assets may be invested in non-U.S. companies

Appropriate diversification

- Typically 20 to 50 companies
- Individual positions will not exceed 5% of total assets at time of purchase
- Typically, target average position size of 2% to 4% of total assets
- Cash typically will not exceed 10% of net assets

¹Includes 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.

This summary of portfolio construction highlights targeted or "typical" portfolio construction goals within the Fund. However, specific investment restrictions may vary and investors should carefully review all Fund materials (e.g. PPMs and other governing documents) to determine specific investment restrictions placed upon the Fund.

Idea generation

Discovery

Meetings

- Management meetings
- Conferences
- Suppliers, customers, competitors, industry experts

Third party research

- News and journals
- Independent and Wall Street analysts

Systematic screens

Quality

- Return on Capital > 10%
- Return on Tangible Capital > 15%

Capitalization

- \$2B+

Valuation

- Price/normalized unlevered after-tax earnings < 15x

Expertise uncovering a diverse set of opportunities

- An unconstrained and continuous search
 - Multiple sources of ideas
 - Clear and rigorous criteria

Research and analysis

A comprehensive view of each business's potential and value

1. Financial Analysis

Deep analysis of 5+ years' financials to understand:

- Business model – how does the company's business make money?
- Management's discussion and analysis of outcomes and outlook
- Capital allocation – what did management do with the cash flow?
- Company and industry-specific accounting

2. Operational Analysis

Discussions with management, customers and suppliers to establish:

- Business model execution and issues
- Competitive framework of industry
- Threat of new entrants and substitute products
- Bargaining power of customers and suppliers
- Management incentives

3. Valuation

Analysis to determine:

- Low/Base/High cases of the company's earnings for the next 3-5 years
- Typically <15x normalized unlevered after-tax earnings

Investment process



FPA's sell discipline

Reasons to sell

- 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
- An investment thesis is proven wrong
 - Will not rationalize holding an investment even if the price/valuation has declined
- A superior opportunity becomes available

Sector breakdown as of June 30, 2017

Sector	FPA U.S. Value Fund	S&P 500
Consumer Discretionary*	36.1%	12.3%
Health Care	19.8%	14.5%
Industrials	11.5%	10.3%
Information Technology	9.6%	22.3%
Consumer Staples	5.5%	9.1%
Real Estate	4.3%	2.9%
Financials	3.8%	14.6%
Materials	1.7%	2.9%
Energy	0.0%	6.0%
Telecommunication Services	0.0%	2.1%
Utilities	0.0%	3.2%
Total	92.3%	100.0%
Call Options	-0.4%	
Other	4.9%	
Cash and equivalents (net of liabilities)	3.2%	

*Houghton Mifflin Harcourt, included in the consumer discretionary sector, derives a majority of its revenue and profit from its Education segment, which primarily provides education solutions to educational institutions for the pre-K – 12 market.

Due to rounding, percentages may not total to 100%. Sector classification scheme reflects GICS (Global Industry Classification Standard). Portfolio composition will change due to ongoing management of the Fund. **Please refer to the end of the presentation for important disclosures.**

Holdings as of June 30, 2017

Portfolio holdings highlights

- The Fund's holdings operate within secularly growing industries
- In our view, the Fund's holdings have strong competitive positions due to advantages stemming from having large scale/low cost structure, superior products/services and/or high quality brands
- Majority of companies are among the top players in their respective industries

Consumer Discretionary	36.1%
CBS	5.3%
Time Warner	4.8%
Twenty First Century Fox	4.8%
Madison Square Garden	4.4%
Tempur Sealy International	3.5%
Whirlpool	3.3%
Houghton Mifflin Harcourt	2.6%
Goodyear	1.9%
Kingfisher	1.6%
Discovery Communications	1.5%
AMC Networks	1.4%
WPP	1.0%

Health Care	19.8%
McKesson	3.7%
AmerisourceBergen	3.4%
Cardinal Health	3.4%
Express Scripts	2.2%
Allergan	2.0%
Anthem	2.0%
LabCorp	1.9%
HCA Holdings	1.2%

Industrials	11.5%
Airbus	2.1%
Southwest Airlines	2.1%
Delta Airlines	2.0%
HD Supply	2.0%
IWG	1.8%
Allegiant Travel	1.5%

Information Technology	9.6%
Alphabet	6.1%
Apple	1.9%
Oracle	1.6%

Consumer Staples	5.5%
CVS Health	5.5%

Real Estate	4.3%
Jones Lang Lasalle	1.8%
Medical Properties Trust	1.5%
Realty Holdings	1.0%

Financials	3.8%
Willis Towers Watson	2.0%
Citigroup	1.8%

Materials	1.7%
Axalta Coating Systems	1.7%

Call Options	-0.4%
Undisclosed	4.9%
Cash and equivalents (net of liabilities)	3.2%

Total net assets	100.0%
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Portfolio characteristics as of June 30, 2017

	FPA U.S. Value Fund	S&P 500
12-Month Forward P/E	14.6x	18.5x
Price/Book	3.0x	3.1x
Return on Equity	20.4%	17.7%
EPS Growth Historical (2-year, \$weighted median)	14.7%	5.3%
EPS Growth Forecast (2-year, median)	13.3%	11.4%
Debt/Equity	1.3x	1.3x
Weighted Average Market Cap (billions)	\$90.70	\$168.70

P/E (Price-to-Earnings Ratio) is a ratio for valuing a company that measures its current share price relative to its per-share earnings.

Price to book ratio (P/B Ratio) is a ratio used to compare a stock's market value to its book value.

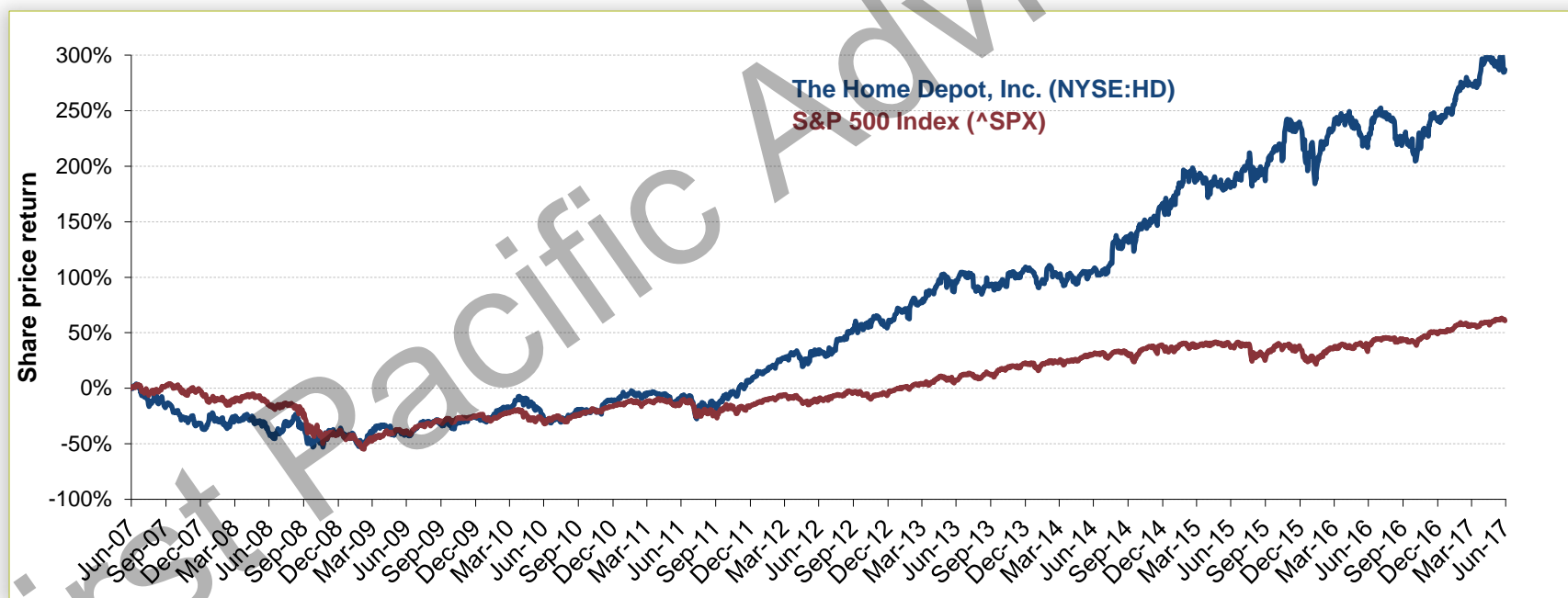
Earnings Per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Portfolio composition will change due to ongoing management of the Fund. **Past performance is no guarantee of future results. Please refer to the end of the presentation for important disclosures.**

The importance of taking a long-term view

Beginning 10 years ago, it took six years for an investment in Home Depot to begin to show material outperformance only to expand further over time. The key is to invest in:

- Strong players with sustainable competitive advantages
- Healthy, secularly growing industries
- Companies at attractive valuations
 - **Should help odds of above average returns over time**



Source: Capital IQ. The above does not represent the Fund's actual portfolio investment, but the performance is presented to illustrate the dispersion between an industry leader in a growing industry and the S&P 500. **Past performance is no guarantee of future results. Please refer to the back of the presentation for important disclosures.**

Performance – net of fees

Trailing Performance (%)

As of Date: 6/30/17	1 Year	YTD	QTD	10 Years*	5 Years*
FPA U.S. Value Fund, Inc.	12.02	7.59	1.98	6.35	11.61
S&P 500	17.90	9.34	3.09	7.18	14.63
US OE Large Blend	17.17	8.65	2.92	6.21	13.35
Russell 2500	19.84	5.97	2.13	7.42	14.04

Calculated using Morningstar Direct. Periods greater than one year are annualized.

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. Current month-end performance data may be obtained at <http://fpafunds.com> or by calling toll-free, 1-800-982-4372. Expense ratio as of most recent prospectus is 1.11%.

* 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. 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 time period from September 1, 2015-September 30, 2015.

Please refer to the end of the presentation for important disclosures.



Appendix

First Pacific Advisors,

Important Disclosures

These slides are intended as supplemental material to the First Half 2017 FPA U.S. Value Fund audio presentation that is posted on our website fpafunds.com.

It is important to understand that the views expressed on these slides and in the accompanying audio presentation are as of the date presented (July 28, 2017) 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. The information provided does not constitute, and should not be construed as, an offer or solicitation with respect to any securities, products or services discussed. 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.

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.

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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, or the Distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpafunds.com.

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; this may be enhanced when investing in emerging markets. Small and mid-cap stocks involve greater risks and they can 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 securities, including those selected by the Fund's portfolio manager, are subject to the risks that their intrinsic value may never be realized by the market and that their prices may go down. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods. Securities selected by portfolio managers using a value strategy may never reach their intrinsic value because the market fails to recognize what such portfolio managers consider to be the true business value or because the portfolio managers have misjudged those values.

The information in this publication has been developed internally and/or obtained from sources we believe to be reliable; however, FPA does not guarantee the accuracy or completeness of such information and is subject to change without notice.

Important Disclosures – cont'd

Index/Category Definitions

The Standard & Poor's 500 Stock Index (S&P 500) is a capitalization-weighted index which covers industrial, utility, transportation and financial service companies, and represents approximately 75% of the New York Stock Exchange (NYSE) capitalization and 30% of NYSE issues.

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. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization. This index is considered a measure of small to medium capitalization stock performance.

Indices do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. You cannot invest directly in an Index.

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

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