Kristina: Good afternoon and thank you for joining us today. We would like to welcome you to Second Quarter 2017 FPA U.S. Value Fund, Inc. conference call. My name is Kristina Surkova and I support the Fund on the client service side. In short order, you will be hearing from Gregory Nathan, the portfolio manager of the Fund. As a reminder, Greg took on the management of this fund on September 1, 2015. It is my pleasure to hand it over to Gregory Nathan. Greg.

Greg: Thank you, Kristina, for that introduction.

Here is a brief summary regarding the portfolio's positioning in the context of the market. There continues to be a 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.

Regarding today's agenda for the call, first I am going to walk through the fund highlights, then I'll touch on my investment philosophy and process. This will be followed by an update on the Fund's performance and portfolio activity. Lastly, we will do some Q&A. Please feel free to submit your questions throughout the webcast.

Regarding the fund highlights, 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, which we define as an approximate seven-year period. Please visit our website at FPAFunds.com to see our white paper on this.

Here is a quick summary of my professional background and experience, as well as my alignment of interest 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. So as I focus on finding quality companies in healthy, 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 exposures.

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 have to find quality companies with strong and enduring competitive positions, growing businesses within growing industries—a growing industry is key because without it, there would typically be 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 is 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: drug stores, home improvement, office supplies, and electronics. Each company is the number one or number two 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 number one players and benefited 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 to five years. This speaks to the importance of having a long-term view and time horizon for investing in high-quality companies in 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 ten years ago, in 2007, 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 approximately 300% and Lowe's is up about 150%, which compares very favorably to the S&P 500, up a little over 50%, and consider that housing starts today are well below what they were ten 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 and 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 50 companies. Individual positions will not exceed 5% of total assets at time of purchase. Approximate average position size of 2% 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. Cash 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 also 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 in order 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 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 can 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 helps to explain why the Fund concentrates its investments in normally 20-50 companies, as 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 re-rating such that estimated future returns from that new current 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.

Regarding the sector breakdown of the Fund as of June 30, you can see that this is truly an actively managed fund that differs greatly from the S&P 500. Capital will be allocated to where we find the best value in the market. As a result, the Fund will be overweight some sectors while being underweight others and having little to no exposure to certain industries.

To give some more details about how differentiated the Fund is from the S&P 500, here are some worthwhile stats based on the 36 disclosed investments of the Fund as of June 30.

The top ten positions made up approximately 45% of the portfolio. Over 40% of the portfolio is invested within three industries. Approximately 59% of disclosed investments were in large-cap companies, while 25% were in mid-cap and 8% in mega-cap stocks. Of the 36 disclosed investments, 14 of them, making up approximately 28% of the portfolio, are not in the S&P 500. The other remaining 22 investments that are in the S&P 500, they make up about 11% of the index but over 64% of the portfolio. Therefore, it should be easy to understand, for better or worse, the Fund’s results can be highly divergent from the S&P 500.

Regarding the portfolio’s holdings, I’d like to point out a few highlights.

I believe all companies operate within secularly growing industries. I believe all companies have a strong position within their respective industry due to various competitive advantages. A majority of these companies are among the leaders in their respective industry.

Here is the portfolio statistics as of June 30. As you can see, U.S. Value's portfolio not only trades at a 20%+ cheaper valuation on a 12-month forward P/E basis compared to the market, but is expected to grow earnings per share 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 declined from 21% at the end of the first quarter to 20%. This assumes no change to the U.S. corporate tax rate. However, given the portfolio's large exposure to U.S. businesses paying at or close to a full effective tax rate, should there be corporate tax reform that lowers the all-in U.S. tax rate to say the mid-twenties, I estimate a high single-digit weighted average increase to the portfolio companies' earnings. That would increase the investment portfolio's discount to my estimate of its intrinsic value to approximately 26%.

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 just over $90 billion at quarter end. However, the median market cap was approximately $20 billion.

I would just like to reiterate the importance of taking a long-term view regarding my philosophy of concentrating investments in often out-of-favor yet high-quality companies within healthy, growing industries that are valued inexpensively.

Beginning ten years ago, an investment in Home Depot underperformed the S&P 500 for a couple of years. After approximately five years, there was little to no outperformance. But after ten years, due to the superior nature of its business, coupled with good management, which led to robust earnings growth and ultimately multiple expansion, Home Depot had a total return of approximately 300% compared to the S&P 500 of just over 50% for the past ten years.

This is not to say that this is necessarily indicative of what any of the Fund's holdings—particularly any of the underperformers heretofore—will do over a ten-year period. But I think it's important to highlight that even the highest-quality companies can dramatically underperform the market for prolonged periods of time before they outperform over the long run.

The bottom line is that if you invest in strong players with sustainable competitive advantages within healthy, secularly growing industries, at attractive valuations, it should help improve the odds of producing above-average returns over the long term.

After transitioning the portfolio to the U.S. Value strategy throughout September 2015, this past quarter marked my seventh full quarter as portfolio manager of the U.S. Value Fund. 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 one-quarter, one-year or even three-year period of time is all that relevant in measuring performance. I pick stocks that I believe will outperform over full market cycles, which is typically over an approximate seven-year timeframe.

That being said, I will discuss in the Fund's shareholder letters, quarterly performance so investors can better understand the puts and takes each quarter.

Before we open up to Q&A, I want to remind current and prospective shareholders that I will be doing these webcast presentations semi-annually. However, if you have questions during interim quarterly periods when we do not hold a webcast, please feel free to reach out to our client service team to get you those answers and if desired, to set up a call with myself.

Well, it looks like there are no questions so I will turn it back over to Kristina.

Kristina: Thank you, Greg. There are no questions at this time. As a reminder, please feel free to contact us with any follow-up questions at crm@fpafunds.com.

Thank you for your participation in today's second quarter 2017 webcast. We invite you, your colleagues and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website within a few days at 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 the prospective calls towards the end of each current quarter and expect the calls 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 semi-annual webcast 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 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. 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. Past performance is not a guarantee of future results. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the security examples discussed. Any statistics have been obtained from sources believed to be reliable but their accuracy and completeness cannot be guaranteed.

You may request a prospectus directly from the Fund's distributor, UMB Distribution Services, LLC, or from our website FPAFunds.com. Please read the prospectus carefully before investing. FPA U.S. Value Fund, Inc. is offered by UMB Distribution Services, LLC.

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

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