Moderator: Hello, and welcome to today's webcast. My name is Krista and I will be your event specialist today. All lines have been placed on mute to prevent any background noise. Please note that today's webcast is being recorded. During the presentation we will have a question and answer session. You can ask a text question at any time. Click the green Q&A icon on the lower left-hand corner of your screen, type your question in the open area and click Ask to submit.

If you would like to view the presentation in the full screen view, click the Full Screen button in the lower right-hand corner of your screen. Press the Escape key on your keyboard to return to your original view. For optimal viewing and participation please disable your popup blockers.

And, finally, should you need technical assistance, as a best practice, we suggest you first refresh your browser. If that does not resolve the issue, please click on the Support option in the upper right-hand corner of your screen for online troubleshooting.

It is now my pleasure to turn today's program over to Kristina Surkova. Kristina, the floor is now yours.

Kristina: Good afternoon and thank you for joining us today. We would like to welcome you to FPA US Value's First Half 2018 Webcast., I support the

Fund on the client service side. The audio, transcript, and visual replay of today's webcast will be made available on our website FPA.com.

In short order you will be hearing from Gregory Nathan, the portfolio manager for the Fund. As a reminder, Greg took on the management of this fund on September 1st, 2015. As part of today's agenda we will cover the Fund highlights, market commentary, performance and portfolio activity and then open it up to questions and answers. At this time, it is my pleasure to hand the call over to Gregory Nathan.

Gregory: Thank you for that introduction. The backdrop for investing in large, growing companies remains attractive. The 10-year US Treasury below 3% remains near historical lows. The unemployment rate is low. The US is posting solid economic growth, which could improve with the recent passage of tax reform. Valuations of US equities do not appear to be cheap. However, after adjusting for a 21% corporate tax rate as well as the benefit of bringing back cash held overseas to use for increased capital investment, R&D, M&A, debt repayment, share repurchases and dividends, the trading multiples look more reasonable.

Additionally, tax reform could continue to help put upward pressure on the market as many companies likely increase their share repurchase activity in the coming years.

One of the biggest drivers of return differentials in the market is the valuation spreads we're seeing widen out between companies the market perceives as having structural above-average long-term growth, i.e. the winners, versus companies whose terminal values are more in question often due to technological disruption, i.e. the potential losers.

Therefore, it is imperative to avoid investing in these potential losers where fundamentals are eroding and, instead, stick to high quality companies we believe have sustainable competitive positions that should result in above-average organic growth over the long term.

Regarding today's agenda for the call, first we're going to walk through the Fund highlights. Then we'll touch on our investment philosophy and process. This will be followed by an update on the Fund's performance, portfolio activity and a summary of the new more diversified portfolio structure we implemented during the fourth quarter of 2017.

If you are unable to participate in the live webcast and/or do not get your questions answered, please feel free to reach out to Kristina Surkova in Client Services to arrange a call.

Regarding the Fund highlights, the primary objective of the US Value Fund is the growth of capital over the long term. Our 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 FPA.com to see our white paper on it.

Here is a summary of my professional background with 16 years of industry experience. My interests are well aligned with fellow shareholders. To that effect, at the end of the second quarter I further increased my investment in the Fund after the brief market selloff.

Now we would like to walk you through our 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, we focus on finding quality companies in healthy, growing industries, at attractive valuations, with low financial leverage. We want the portfolio to have an appropriate level of diversification by number of investments and industry exposure.

We define quality as companies that have strong and enduring competitive positions and growing businesses within growing industries. A growing industry is key because without it there will typically be poor earnings growth and investment returns.

Lastly, we want our companies to have high returns on capital and robust free cash flow generation.

We prefer companies with good management. However, one of the reasons good businesses are often offered at attractive prices is because of poor management. Therefore, we will consider such companies provided there is not a structural impediment to replacing management and there is a large enough discount to our estimate of intrinsic value.

Bottom line, the quality of the business followed by valuation are the most important investment criteria.

A current example of this would be Lowe's, the home improvement retailer, which recently got a major upgrade in management. Newly appointed CEO Marvin Ellison was an executive at Home Depot in charge of the company's US stores from 2002 through 2014. During his time at Home Depot, Ellison helped oversee the chain's turnaround. We believe Ellison will apply his best practices and learnings from his time at Home Depot to help optimize Lowe's operations.

It is worth noting that we made our investment in mid-2017 under the old management team that was underperforming. The discount was large enough to invest at that time. Luckily an activist investor disclosed a stake in January 2018. By the end of March, the former CEO announced his retirement and just two months later we had our new, highly capable CEO in place.

As a result, we have a nearly 40% total return on our investment in just one year. Moreover, we continue to believe there is good upside from here provided management can execute its plan.

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 US companies. At the same time, we have the ability to make opportunistic foreign investments.

Appropriate diversification—individual positions will not exceed 5% of total assets at the time of purchase.

Generally fully invested—the reason for this is the portfolio is made up of what we believe are under-valued, high-quality companies that

should compound in value over time. Therefore, cash will usually not exceed 10% of the portfolio.

The foundation of our portfolio construction process stems from our investment objective of seeking long-term growth of capital. At the same time we have a goal of generating investment returns that exceed the S&P 500 over full market cycles, all while minimizing the risk of permanent capital impairment.

We are of the view that the world is dynamic, with change taking place seemingly faster than ever before. Therefore, it is important to have a diversified portfolio to mitigate unforeseen risks, namely disruption of business models. While we consider investing in all industries at any given time, we will not invest in all industries if that means taking undue risk and/or negatively impacting long-term returns.

We deconstruct the S&P 500 whereby, in the famous words of Bing Crosby, we are trying to accentuate the positive, eliminate the negative, latch onto the affirmative and don’t mess with Mister In-Between.

We start by eliminating or underweighting unfavorable sectors due to relative inferior quality, lack of above-average growth and/or unattractive valuation. From the remaining sectors that meet our criteria, sector weights are based on long-term industry fundamentals coupled

with the relative attractiveness of various companies within those sectors, centered on business model sustainability, normalized long-term earnings growth, and valuation. We consider select investments outside the US and the S&P 500 that offer compelling risk-adjusted returns. The goal is to be as close to fully invested as possible, provided we can find the requisite high-quality companies at attractive valuations.

Cash is a by-product of what is left over from having investments in the industries and companies we view attractive at the relative position weightings we deem appropriate based on sector risks, coupled with our estimate of the company's prospective returns over the long term.

It is important to note that the portfolio construction process changed in the fourth quarter of 2017. The current portfolio construction process is very different from the manner in which we constructed the US Value portfolio over the first 27 months of operation. Since December 1, 2017, we have operated using the portfolio construction process I just described.

Specifically, over the first 27 months, the portfolio was constructed in a much more concentrated manner by sector and company compared to the much more diversified manner in which we operate today.

Over the first 27 months the portfolio was significantly underweight two of the largest, highest quality, fastest-growing sectors of the S&P 500—IT and financials. This was a major contributor to the Fund's underperformance over those 27 months.

Under the current portfolio construction process, the Fund has performed much better. Since December 1, 2017 through yesterday, July 24, 2018, a nearly eight-month period, net of all fees and expenses, US Value is up approximately 8.4% compared to the S&P 500 up 7.8%. On a gross basis before fees and expenses, US Value is up approximately 9.1% or 1.3% of outperformance. It is also worth mentioning we achieved this performance while holding on average a cash balance north of 5%.

I think it is important to look at US Value's portfolio characteristics compared to the S&P 500. While US Value is reasonably diversified with 64 investments, 61 of which are disclosed, we are more concentrated than the S&P 500.

US Value has 25.8% of the disclosed portfolio invested in its top five holdings compared to 16% for the S&P 500. Our top ten disclosed investments make up 37.6% of the portfolio compared to 21.2% for the index.

Probably one of the greatest differentiators for US Value is our willingness to eschew entire sectors of the market. To that point, US Value currently does not have any investments in 5 of the 11 sectors that combined make up 21.1% of the index. These sectors are consumer staples, energy, real estate, utilities and telecommunication services. This goes back to the earlier point of trying to minimize exposure to inferior parts of the market where we do not see good value.

Another key differentiator is nearly 10% of our portfolio is invested in foreign equities while the S&P 500 has zero. Today you can see that the median and weighted average market cap of our portfolio is considerably higher than the S&P 500. That is because some of the largest companies in the index, such as Alphabet and Facebook, are our largest positions. This also contributes a great deal to our portfolio's 32% disclosed overlap with the S&P 500.

We believe these are some of the highest-quality businesses we have ever come across and they share an ability to grow revenue and earnings at above-average rates for many years to come.

In terms of comparative quality, there are a few metrics you can look at to give you a sense but don't tell the entire story.

The companies in our portfolio over the past two years have grown revenue and earnings faster than the S&P 500 by approximately 3-4%. At the same time, based on consensus estimates over the next couple of years, expectations are for revenue and EPS to grow at a similarly faster rate of 3-4%. This is a material difference when compounded over many years.

Our companies also have 2.3% higher return on equity and carry less financial leverage, meaning that on an unlevered basis, return on capital for our portfolio companies is even higher compared to the index.

As you can see, the 12-month forward P/E of our portfolio compared to the S&P 500 is at a slight premium and on an unlevered basis, even less so.

We would argue that this valuation premium is well deserved, if not too small. To illustrate this point, let me highlight two companies that reported earnings this past Monday.

Alphabet, which is our largest position, had very good earnings. When we made our first investment in the company in March 2016, backing out its net cash position at the time, it was trading at approximately 18 times forward unlevered after-tax core Google earnings, which excludes losses from its other bets.

Over the last nine quarters, core Google revenue has grown 62%, earnings have increased 43.5%, R&D is up over 50% and capex is up over 150%. Over that time, despite a significant increase in investment into its various businesses, it has generated approximately $54 billion in free cash flow or about 13% of the enterprise value at the time of our initial purchase.

Since that time, the stock is up over 75% and, as you can tell, a majority of the return stems from organic growth and free cash flow. This investment return was not driven by multiple expansion.

Conversely, there is Whirlpool, a company in which we made our first investment in late October 2015 at $155. We traded the position well, selling out in late 2017 into early 2018, earning an approximate 11.5% IRR. However, today, the stock trades below $125. The company has been a perpetual disappointment, unable to deliver on its projections. When we first bought the stock, it was trading at approximately 13.5 times 2016 earnings of $11.50 per share, although management in early 2016 had forecasted $14.00-$14.75 in EPS. Management had laid out a plan to grow earnings at a 10%-15% rate for several years to come, such that EPS was expected to be over $20 by 2020. On Monday, management cut earnings guidance yet again and now forecast it will earn $14.20-$14.80

this year. The stock below $125 is down approximately 20% in less than three years.

Clearly, the market has lost confidence in management and/or the long-term earnings power of the business. This is what you might call a classic value trap. Luckily, we got out in time and made a good return, but this is a cautionary tale of what can go wrong when a stock seduces an investor by seemingly cheap multiples for above-average projected growth.

I use these two examples because this gets to the heart of being a value investor and why when constructing a portfolio, it's important to have a reasonable level of diversification since there will usually be investments that disappoint.

Many people say value investing just does not work any more. However, to say that, one must first define value.

We define value as the relationship of business quality relative to the price you pay for it. Business quality means the ability to generate sustainable above-average earnings growth over the long term. In this example, Alphabet was the better value. In order to see that, you had to have the correct long-term view. That is because when we bought Alphabet on an unlevered after-tax basis, it was trading at an approximate

30% higher multiple on 2016 earnings estimates compared to Whirlpool. But looking out just a couple of years to 2018's now expected earnings, we can see that we purchased Alphabet's core Google business at an unlevered after-tax multiple that was actually lower than Whirlpool's. Therefore, when people say value investing does not work any more, our response is: it sure does.

However, we have found trying to find value by leading our quest by looking for low-multiple stocks is not a good approach. Instead, we focus on finding quality businesses within growing industries. From there, we estimate its long-term earnings power and as a result, we can have a view as to what an appropriate multiple is for the company and what a good purchase price is.

We believe we will be able to continue to find value by taking a long-term view and hopefully being right on those views a lot more than we are wrong. Moreover, by using this approach to construct a reasonably diversified portfolio, we are confident this will generate long-term growth of capital with returns exceeding the S&P 500 over full market cycles.

Now here is the portfolio sector breakdown as of June 30. There are investments in 6 of the 11 sectors in the S&P 500. Combined these 6 sectors make up 78.9% of the S&P 500 or 93% of US Value's portfolio.

Relative to the S&P 500, the portfolio is generally overweight technology and industrials, equally weighted in financials and consumer discretionary and underweight healthcare and materials.

To reiterate, the five sectors the Fund currently does not have any direct exposure to are consumer staples, energy, real estate, utilities and telecommunication services. Collectively, these five sectors make up 21.1% of the S&P 500.

Regarding the portfolio's holdings, we would like to point out a few highlights.

We believe our companies operate within secularly growing industries. We believe our 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.

Lastly, with the recent passage of corporate tax reform, the portfolio's companies are in a position to benefit. Most of our companies are domestic and many had above-average tax rates. As a result, many companies are seeing earnings increase due, in part, to the corporate tax rate declining to 21%. Additionally, several companies could benefit from the ability to repatriate cash held overseas.

We put together this slide to highlight the differentiation of US Value's portfolio compared to the index. Here we show you a few of our largest technology investments compared to the S&P 500's largest household and beverage products companies—a sector we have no exposure to. Looking at metrics such as ROE would show you that all these businesses are quality in nature. But that doesn't tell you how the businesses will perform going forward.

As you look at consensus estimates for revenue and EPS growth, you can see a stark contrast between the two groups, whereby these large tech companies are growing at well above-average rates, while these consumer staple stocks are growing at average or below-average rates.

When looking at valuation, you can see that Alphabet and Facebook trade at a bit of a premium compared to the big three consumer staples companies but are growing much faster. Apple trades at a meaningful valuation discount despite faster expected growth.

The bottom line is we believe most consumer staples stocks at current prices offer return-free risk, while we think our three largest tech investments over the long term will generate above-average earnings growth translating into above-average investment returns.

Lastly, on the left-hand side is US Value's performance net of fees and expenses.

As we already discussed, during the first 27 months of management, we constructed US Value's portfolio very differently compared to the last nearly 8 months. As a result, if you want to analyze how US Value might perform in the future, it is worth focusing on the current portfolio construction process, sector weightings, positions within those sectors and the output from those efforts being the last nearly eight months of performance.

Our batting average over the last nearly eight months has been very good and our slugging percentage has been even better. Over 60% of our positions have been profitable, while the profits from our winners exceeds the losses from our losers by approximately four times.

This is in part due to our portfolio management process whereby we are quick to cut losers when an investment thesis does not pan out, while at the same time let our winners run particularly when our portfolio companies are executing well.

The summation of these efforts is that from December 1, 2017 through to July 24, 2018, US Value returned approximately 9.1% gross and 8.4% net of all fees and expenses. This compares favorably to the

S&P 500's total return of 7.8%. US Value outperformed the index by approximately 1.3% on a gross basis and 0.6% net of all fees and expenses.

In closing, we believe we have a repeatable portfolio construction process that positions us better than ever before to achieve our investment objective of long-term growth of capital and, at the same time, hit our goal of outperforming the S&P 500 over full market cycles.

We look forward to delivering value for fellow shareholders over the coming years.

Again, if you are unable to participate in the live webcast and/or do not get your questions answered, please feel free to reach out to Kristina Surkova in Client Service to arrange a call with me. Thank you for your confidence and continued support; we truly appreciate it. Now back to you, Kristina.

Kristina: Thank you, Greg. We will now pause for a brief moment to check for any questions that might have been asked during the live webcast.

There are no questions at this time. Thank you for listening to FPA US Value's first half of 2018 webcast. We will now turn it over to the system moderator for closing comments and disclosures.

Moderator: Thank you for your participation in today's webcast. We invite you, your colleagues and your 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 FPA.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 FPA.com for future webcast information, including replays. We will post the date and time of the prospective calls towards the end of each 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@fpa.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 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. Past performance is not a guarantee of future results.

Any statistics have been obtained from sources believed to be reliable but the 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, FPA.com. Please read the prospectus carefully before investing. FPA funds are offered by UMB Distribution Services, LLC.

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

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