Ryan: Good afternoon and thank you for joining us today. We would like to welcome you to the 2016 first quarter U.S. Value Fund, Inc. conference call. My name is Ryan Leggio and I am a Senior Vice President and Product Specialist here at FPA. In just a moment you will hear from Greg Nathan, Portfolio Manager of the Fund. Before I introduce Greg, as most of you know, we will be hosting our third FPA Investor Day here in Los Angeles on June 6th. Information on the event is on the front page of our website, FPAFunds.com, and we look forward to seeing those of you who are attending. And for those of you who wish still to attend, please feel free to register as we still have space. For those who are unable to attend, the presentations from that day will be made available on our website a few weeks after FPA Investor Day.

As a reminder, Greg took over management of this strategy, having launched the strategy on September 1st, 2015. And at this time it's my pleasure to hand over the call to Greg Nathan. Greg?

Greg: Thank you, Ryan, 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's 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, and 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 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 companies with strong and enduring competitive positions, growing businesses within growing industries. A growing industry is key because, without it, there will 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'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 industry. This shows the ten-year performance of eight hardline retailers. There are four categories represented: drugstores, home improvement, office supplies, and electronics. Each company is a 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 benefitted from good management; whereas, Walgreens and Lowe’s have been impacted by various mismanagement over the years. Conversely, the four companies underperformed in 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 purchased 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 time is ultimately on your side.

Another very key point I want to make is to consider the moment in time from ten years ago in early 2006. If you had 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 nearly 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 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 evaluations, the results should be 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 invests. Appropriate diversification: typically 20 to 30 companies. 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 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 the various companies and industries for over 15 years, I have a very good knowledge base to pull from. For example, I've done extensive research on the healthcare sector and, in particular, the pharmaceutical supply chain. So when several high-quality companies in the sector sold off in the first quarter, I was able to quickly brush up on various companies, understand why these companies were out of favor, and confirm these investments provided a good risk-adjusted return for the portfolio. I

constantly read various publications, news articles buy-side, as well as sell-side research. When I'm 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-case 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 helps explain why the Fund concentrates its investments in normally 20 to 30 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 price are projected to be below average. These are what I like to call happy sales. 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. These are what I like to call unhappy sales. Lastly, a superior opportunity becomes available and these are what I like to call thankful sales.

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 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. Since my mindset is always on how can I improve the portfolio each and every day, when there is an opportunity that presents itself, I will not hesitate to act.

After transitioning the portfolio to the U.S. Value strategy throughout last September, Q1 '16 was my second full quarter as a 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- or two-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 five- to seven-year time period. 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 first quarter can best be described as underwhelming. The Fund net of fees and expenses underperformed the S&P 500 by 242 basis points. Additionally, it underperformed its Morningstar Large Blend category peer group by 137 basis points. The average funds in the Morningstar Large Blend peer group are also funds that typically benchmark themselves to the S&P 500. One should

consider this performance within the context of the kind of market we experienced in the first quarter. During the first six weeks, the market declined by 10.27% only to recover all of those losses over the following four weeks and actually finish the quarter up by 1.35%. During the quarter, the 10-year Treasury note declined from 2.27% to 1.79%. A combination of the market volatility and decline in long-term interest rates helps explain why the best-performing sectors in the market were perceived high-quality, recession-resistant industries that offered stable, above-average yield.

The Fund has little to no exposure to these outperforming sectors such as telecom, utilities, and consumer staples. That is because I generally find the valuations of most companies in these sectors to be fairly valued. On the flipside, the Fund was overweight a couple of the worst-performing sectors in the market, mainly healthcare and financials. Healthcare was impacted due to continued political rhetoric aimed at the pharmaceutical industry, in part tied to bad actors such as Valeant whose woes cast a dark cloud over the industry. However, I continue to find some very good pockets of value within healthcare, which explains the Fund’s overweight position. The Fund’s financial exposure is concentrated within the capital markets, but it’s generally suffered from

the market's volatility. But nothing has transpired over the past few months to impact long-term health of the industry as well as these companies' competitive positions within them. As a result, I continue to believe these companies remain undervalued.

The Fund's industry exposures didn't change that much over the past quarter. Consumer discretionary and financials exposure declined by a few percent. As media stocks appreciated, various positions were trimmed. MSG Networks was sold in order to increase our investment in Madison Square Garden Entertainment. Industrials were trimmed by almost 1%. FedEx was sold, while a new position in Southwest Airlines was initiated. Healthcare-related exposure, when including CVS and Walgreens, which are captured within consumer staples, increased by approximately 6%. Exposure to brand and pharmaceutical manufacturers was greatly reduced while investment in the pharmaceutical supply chain increased markedly. The Fund now has a small exposure to the IT sector through its investment in Apple. Lastly, the Fund continues to have no exposure to the energy, utilities, materials, and telecommunication 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 8 of these 26 companies operating as number-one players and 20 being in the top three.

Here's the portfolio statistics as of March 31st. As you can see, U.S. Value's portfolio not only trades at a materially-cheaper valuation compared to the market, but is expected to grow much 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 leveraged on a net debt-to-EBITA basis. The Fund's estimated discount to its intrinsic value declined from 27% at the end of last year to 25% at the end of the first quarter. Despite a negative 1.07% return for the Fund during the quarter, the portfolio's discount narrowed by 2% as I continued to upgrade the portfolio into higher-quality companies during the market selloff. Many of these companies, such as the pharmaceutical drug distributors, typically trade at a premium to the market. So when they are offered at a discount, even if it is a more modest one compared to some other holdings, I will gladly add them to the portfolio. 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 approximately 49½ billion at quarter end.

Now I'd like to walk you through an investment example, Spirit Airlines, listed as SAVE. SAVE's stock price declined by more than 50% throughout 2015, going from trading at about a 20x forward P/E multiple to approximately 9x in the 2015 fourth quarter. The stock price declined throughout last year as the company missed quarterly consensus estimates and lowered its 2016 outlook. This was primarily due to adding too much capacity into increasingly-competitive routes where some of the major airlines defended their market share by lowering fares more than they had historically with a newfound ability to do so thanks to lower fuel prices. The market feared the company would continue to add capacity on these more competitive routes regardless of the prospective return on capital. Those fears, in part, led to a CEO change with a current board member, Robert Fornaro, taking over the controls. Fornaro was the CEO of AirTran, which was sold to Southwest Airlines in 2011. He is therefore a known commodity in the low-cost airline industry.

SAVE's business model is one of an ultra-low-cost carrier, or ULCC. So how does Spirit achieve its ultra-low cost you might ask? For starters, Spirit operates as a route skimmer. It offers primarily direct flight

service on routes with below-average competition and above-average fares. It typically offers only one or two nonstop flights a day during off-peak times at prices well below major airlines. University of Michigan alumni based in L.A. such as myself who are looking to see the Wolverines play in the Big House this year would see Spirit as a travel option. For example, Spirit offers one flight, a redeye, from L.A. to Detroit compared to four flights a day by Delta. Spirit's price is approximately $100 or 20% cheaper than Delta's. Operating in this manner gives Spirit more flexibility to adjust capacity to optimal levels based on supply/demand changes. Spirit only offers one class of service, a very cheap Bare Fare that gets you from Point A to Point B. Included in this fare is the ability to store a personal item underneath the seat in front of you. Everything else, from storing a rollaway bag in the overhead bin to seat assignments, are an extra charge. Spirit only flies one type of aircraft which helps keep maintenance and pilot-training costs low. It crams the maximum number of seats onto a plane so there is less legroom and seats don't recline. Flight attendants clean planes, serve as gate agents, and carry out other tasks in addition to their main job. Spirit uses cheaper regional and secondary airports. It turns around aircraft quickly and flies at all hours which helps maximize daily flight time.

All these things help lower the cost per available seat mile, or CASM, which translates into SAVE being the lowest-cost producer in its primary markets. As you can see here, even Southwest Airlines has CASM of 29% higher than SAVE. This CASM advantage translates into a sustainable competitive advantage because Spirit passes on these savings to its customer in the form of lower fares. As you can see in this chart, Spirit's average fare on a comparable route versus Southwest is about 36% cheaper and over 40% less compared to the major airlines. In fact, Spirit's average fare is at or below the competition's breakeven cost. Spirit has minimal overlap with major airlines. That's because Spirit targets below-average-income, leisure consumers while the majors are generally focused on less price-sensitive, business customers. As a result, over 80% of SAVE's passengers buy tickets in the lowest-fare band, which is well below its competitors' breakeven cost. Essentially, SAVE's added supply focused on this segment of the population increases demand and therefore this additional capacity is generally not cannibalistic to the major airlines' share. After SAVE enters a new market, it is able to achieve an 85% or greater load factor without taking share from other carriers.

SAVE's ULCC business model works well in a variety of economic and operating environments. It has consistently achieved double-digit operating margins and ROE north of 20% over the past five years. SAVE and it's ULCC counterparts have a lot more room to grow. Today, ULCCs in the U.S. only have 5% share compared to 23% share in Europe. Ten years ago, ULCCs had just 10% share in Europe. Spirit believes it and its ULCC counterparts can gain share within a growing airline industry. It estimates ULCC's share will increase from 5% currently to 8% in 2021.

SAVE has 125 new market launches planned over the next five years compared to serving less than 200 markets today. Additionally, SAVE believes there are north of 500 markets where it can earn a mid-teens-or-better operating margin resulting in a high return on capital employed. Spirit forecasts that its CASM ex-fuel advantage will remain intact, if not expand, throughout its growth cycle. Spirit's new CEO brings a fresh focus on improving the customer experience, which is something the prior CEO admittedly, did not make a priority. By delivering more consistent, friendly service, improving operational reliability, and providing better education regarding what consumers should expect to receive for their fares, should all help reduce customer complaints and increase repeat customers.

I think there are some key takeaways from this investment example which speak to the strengths of the U.S. Value investment strategy. First, a multi-cap strategy allows us to invest wherever the best opportunities arise. Case in point, SAVE's market cap was approximately $2.7 billion at the time of purchase. Second, we focus on investing within healthy industries. The U.S. airline industry has consolidated from nine national players to now four in less than ten years. Supply/demand is balanced in most markets resulting in generally rational pricing. Management teams are much more incentivized on ROIC than ever before. Third, we focus on investing in growing industries. The U.S. ULCC market is in the early innings of its growth compared to the European market. Fourth, we focus on investing in quality companies. SAVE has a strong and enduring competitive position due to its structural, low-cost advantage. Operating margins are consistently double-digits along with ROE north of 20%. Its robust free-cash-flow generation will continue to be utilized to fund high ROIC growth for years to come. Fifth, we buy companies that are attractively priced. We only paid approximately 9x earnings for a leader in its industry that has a net cash balance sheet and can grow its earnings double-digits for many years to come. Lastly, we prefer good management, but we'll consider investments in high-quality businesses

that are not well managed provided executives can be replaced so long as there is an ample discount to our estimate of intrinsic value. The quality of the business and valuation are the most important investment criteria. In this case, we invested in Spirit prior to the CEO change.

So with that, I'd like to turn it back over to Ryan for Q&A.

Ryan: Thanks, Greg. As Greg just mentioned, we're happy at this point in time to take Q&A. We'll pause for just a moment as we compile some questions, thank you. [SHORT PAUSE] So we received one question regarding some information on Spirit and we will get back to you on that after the call. The other question that we received beforehand is "Greg, is there any value left in the United States?"

Greg: Sure. So first, I would refer you to the hardline retail performance slide. The key point is by investing in a select number of high-quality companies that should hopefully deliver superior returns over the long run. Again, I like to use the Home Depot and Lowe's examples. If you had bought these stocks during the peak of the housing bubble ten years ago when the stock market did not appear attractive, you would have ended up with very good returns. Regarding the current market environment, I think there is value in the U.S. Stock Market. But the pockets of value are relatively concentrated by industry. If we go back to the slide that shows

the portfolio's breakdown by sector, you'll see that U.S. Value has its exposure fairly concentrated within a few sectors. Specifically, two industries where I'm finding value; media and the pharmaceutical supply chain make up approximately 40% of the portfolio. These two industries have historically traded at a premium to the market, but today are trading at a discount to the S&P 500.

Ryan: Great, thanks, Greg. The other question we had was the GAAP numbers or I guess earnings of the S&P 100. And for those of you who don't know, the S&P 100 measures generally the 100 largest stocks in the United States by market capitalization.

Greg: Sure. So according to McGraw Hill Financial, the S&P 100 traded at approximately 21x trailing GAAP earnings and is at 16x forward earnings. If we go to the portfolio characteristics page, we can see how U.S. Value compares to the S&P 100. Valuation is considerably cheaper for our portfolio on a forward P/E basis and consensus estimates have our companies growing earnings at a faster rate.

Ryan: Thanks, Greg. We also got a question about one holding that you mentioned in the webcast, which is Apple. And the question is, "How does Apple provide a long-term return with the law of large numbers, i.e.,

a double an Apple would require a market capitalization approach approximately $1 trillion?" Greg?

Greg: Sure. Yeah, double, that's not necessarily what I'm assuming Apple can return over the next few years, which is typically the timeframe when estimating a company's intrinsic value. But the way I think about Apple is basically, first of all, you have to net out the cash. So on an after tax-adjusted basis, if you were to fully tax-adjust its overseas cash, Apple has north of 20 bucks a share in cash. So at today's current stock price, I don't know where it closed but it somewhere like around $98, so you're talking about—I'll call it $78 for the business. And on the sixth upgrade cycle, which is last year, basically earned—I'll call it 9½ bucks a share. So you're paying ex. cash circa 7-ish times earnings. And so the question is can they grow earnings? I would point to the fact that I think there's a lot of pent-up demand for the iPhone 7. If you look at the user base; 40%-ish on the 6 or 6S platform, or 60% on a 5S-or-older platform. So I think there's a lot of pent-up demand. You can see the services business, which is tied to the install base, is growing at a mid-20s or higher clip. So as the installed base grows so do services. Ultimately services are going be tied to hardware sales. But, ultimately, I don't think Apple's growth has gone negative. I actually think it can still grow. To your point, I don't think

it's going to grow double-digits per se, but I think it can still grow operating income over the long term at a low- to mid-single-digit rate. And then factor in the free cash flow generation of the business that can return to shareholders through dividends and share repurchases. I think you can get a pretty decent return from current prices. That being said, it's a small position and I would hope it continues to trade down as I think it will be a better value at cheaper prices.

Ryan: Thanks, Greg. [SHORT PAUSE] With that, we don't see any other questions. We'll pause for just a moment in case we missed any. [SHORT PAUSE] We did receive another question on research analysts and we're happy to answer that after the call as well offline. Well, with that, we will conclude today's call. Thank you for your participation in today's First Quarter 2016 webcast. We invite you, your colleagues and shareholders to listen to the playback of this recoding 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 really 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 quarter and expect that the calls will be held approximately three to four weeks following each quarter's end.

If you did not receive an invitation via email for today's webcast and would like to receive them in the future, 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 the views expressed on this call are as of today, April 27th, 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.

The information provided does not constitute and should not be construed as an offer of 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.

[END FILE]