Mark: Good afternoon and thank you for joining us today. We would like to welcome you to the 2016 Third Quarter FPA U.S. Value Fund conference call. My name is Mark Hancock and I oversee Client Service and Business Development here at FPA. In short order you will be hearing from Gregory Nathan, the Portfolio Manager of the Fund. As a reminder, Greg took on management of this Fund on September the 1st, 2015. It is now my pleasure to hand the conference call over to Greg.

Greg: Great, thank you for that introduction, Mark. Here is a brief summary regarding the portfolio's positioning within the context of the market. There continues to be a lack of widespread value throughout the market. However, there was 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 healthcare-related sectors.

Regarding today's agenda for the call, first I'm going to walk through the Fund highlights then I'll touch on my investment philosophy and process. This will be followed up by an update on the Fund's performance and portfolio activity. Lastly, we'll do some Q&A.

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 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, 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 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 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 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 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 250% and Lowes 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 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 40 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 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 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 competition, 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 helps explain why the Fund concentrates its investments in normally 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 investment even if the price or valuation has declined. Lastly, a superior opportunity becomes available.

The Fund's industry exposures didn't change that much over the past quarter. Consumer discretionary exposure declined by a little over 1%. Media exposure and Whirlpool were trimmed. A new position was taken in Norwegian Cruise Line, while the Fund's investment in Tempur Sealy International increased into price weakness at the end of the quarter. Healthcare-related exposure, including CVS and Walgreens—which are captured within consumer staples—increased by almost 1%. Aetna was sold and Anthem was trimmed in order to further increase

exposure to the pharmaceutical supply chain infrastructure companies which include the largest distributors and retailer/mail pharmacies.

Industrials exposure declined by 2.6%. This is mainly due to trimming airlines which helped fund an investment in Norwegian Cruise Line. While cruise lines and airlines are technically grouped in different sectors, I view them within the travel and leisure industry. There are various shared risks such as the price of oil, terrorism, and overall macroeconomic conditions, which greatly affect the earnings power for these companies. From a risk-management perspective, at this point in time I did not want to have the Fund's industry exposure go north of 10%.

Financials remain unchanged while IT increased by .8% where the Fund's entire exposure is within Alphabet, which was a Top 5 performer for the Fund during Q3. The Fund continues to have no exposure to the energy, utilities, materials, telecomm sectors. Lastly, cash and equivalents remained about the same at 10%.

Regarding the portfolio's holdings, I'd like to point out a few highlights. I believe all companies operate within secularly-growing industries. Also, I believe 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.

Here is the portfolio's statistics as of September 30th. 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 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 remained unchanged at 27% compared to the prior quarter. 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 56 billion at quarter end.

Now I'd like to walk you through an investment example: Tempur Sealy International, listed as TPX. Tempur Sealy International is one of the two largest bedding products companies in the U.S. Just over four years ago the company was formed when Tempur-Pedic, the leader in premium memory foam bedding, acquired Sealy, one of the leading manufacturers of innerspring mattresses. As TPX declined from $70 at the end of last year into the $50 to $60 range during the first half of 2016, U.S. value initiated a position in this high-quality company at less than 15x

2016 estimated earnings and ultimately 10x estimated earnings looking out two to three years.

TPX has some of the most recognizable brands in the industry which provides it with unique advantages over the competition. Just over a year ago Scott Thompson was named Chairman and CEO in order to help TPX reach its potential. One thing worth highlighting is that the company's market cap is only a few billion. While the Fund's weighted average market cap is 56 billion, this is not a large-cap focus fund by design. U.S. Value invests wherever the best risk-adjusted opportunities are in the two-billion-and-above market cap arena. It just so happens that right now I'm finding more opportunities within large caps, but 15% of the portfolio is currently invested in undervalued, high-quality, mid-cap companies like these.

The core to any company I invest in is that it operates within a healthy, growing industry, which TPX most certainly does. The long-term growth rate of the U.S. wholesale mattress market has compounded at 6%, which compares very favorably to U.S. GDP growth. Additionally, the non-U.S. wholesale mattress market has grown at a 7% CAGR over the past ten years.

Mattress units sold in the U.S. peaked out during the housing bubble days from a decade ago and are now back to levels from the late '90s/early 2000s. Thus, there is still more volume opportunity in the low- to mid-price segment of the market as household formation comes back to more normalized levels, which provides good growth opportunity for the Sealy business. Plus, a large part of why the U.S. market is approximately 25 to 30% larger today compared to a decade ago despite unit volumes being down is due to this global trend toward higher-quality, higher-priced mattresses which really plays into Tempur-Pedic's strength. The average wholesale price of a mattress sold in the U.S. grew at a 4.1% CAGR from 2005 through 2014.

This chart shows just how consolidated the U.S. wholesale mattress industry is. The Top 2 players now control over 70% of the market and hold an even greater share in the mid- to high-end part of the market. Both companies have continued to gain share over time at the expense of smaller competitors.

Chairman and CEO Scott Thompson joined the company just over a year ago to help TPX realize its potential. One of the main things he is tasked to do it to help the company operate more efficiently. The company's operating margins are below where they've been historically

when Tempur-Pedic and Sealy operated as separate companies. Essentially TPX has yet to achieve the desired cost synergies from the merger. According to Thompson, there appears to be approximately 400 bps of operating margin improvement potential within the Sealy business alone that he plans to realize within the next couple of years.

To conclude, I sleep well at night being invested at a cheap valuation in such a high-quality company that operates within a healthy, secularly-growing industry and is now being managed well.

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

That being said, I will review quarterly and annual performance so you can understand how the portfolio has been and continues to be positioned within the context of the market. Performance in the third quarter can again be described as underwhelming. The Fund net of fees

and expenses was flat. It underperformed the S&P 500 by 385 basis points. The same can be said about the past year where the Fund's performance has been essentially flat against a market that has risen nicely.

Now I want you to consider this performance within the context of the kind of market we experienced in the first three quarters of this year. During the first nine months of 2016, the 10-Year Treasury note declined from 2.27% to 1.61%. A combination of the market volatility and decline in long-term interest rates helps explain why some of the best-performing sectors in the market have been perceived high-quality, recession-resistant industries that offer stable, above-average yield.

The Fund has little to no exposure to these outperforming sectors such as telecomm and utilities. That is because I generally find the valuation in most companies in these sectors to be fairly valued. On the flipside, the Fund was overweight some of the worst-performing sectors in the market, mainly consumer discretionary, healthcare, consumer staples, 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 helped cast a dark cloud over the industry. However, I continue to find some very good pockets of value within

healthcare and consumer staples via investments in CVS Health and Walgreens Alliance Boots which helps explain the Fund's overweight position there.

Many consumer discretionary companies have performed poorly this year as the market is skittish of a pending recession. But nothing has transpired over the past year to impact the long-term health of the industries as well as these various companies' competitive positions within them. As a result, I continue to believe our portfolio companies remain undervalued and am enthusiastic about their prospective returns.

Now I just want to hammer home how important it is to take a long-term view given my style of value investing. You can see here that an investment in Home Depot ten years ago would have performed quite poorly compared to the market in the first couple of years and took over five years to show any kind of outperformance. And then after five years the outperformance continued to expand over time. Ten years ago had you invested $10,000 in Home Depot compared to the S&P 500, you would have ended up with 35,000 as opposed to 15,000 which is a very material difference. 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 above-average returns over time.

Year-to-date, a large part of the Fund's underperformance is related to the Fund's investments within healthcare and, in particular, within these five companies that operate within the pharmaceutical supply chain. I presented my investment case for these companies at our Investor Day this past June. You can find the presentation on our website at FPAFunds.com. I don't believe these negative returns are permanent capital impairments because these companies' competitive positions are stronger than ever, coupled with rising earnings over the long term, and a very attractive valuation. Rather, I believe these are mark-to-market impacts which would hopefully reverse post-election in the coming years.

With that said, I'd like to open it up to Q&A.

Mark: Thank you, Greg. We will now just quickly go offline and come back.

[SHORT PAUSE]

Mark: Thank you for your patience. We've now switched to Q&A and received a question I'm assuming given Greg's exposure and interest in the media sector about this AT&T-Time Warner possible merger. Greg?

Greg: Sure. So the Fund has a position in Time Warner Entertainment. The proposed acquisition/merger values Time Warner at $107.50 and

currently the stock is in the high 80s. The market is obviously very skeptical that this merger will happen. What's interesting to note is that Comcast purchased NBCUniversal five years ago. It was a very similar type of acquisition that the government allowed to go through, albeit with many terms and conditions placed on both sides of the business. That is my expectation. I think the odds are better than the market perceives for this acquisition to go through. I would say that I would have preferred to see horizontal mergers as opposed to vertical here. I think there's a lot more cost but also revenue synergies horizontally. And my preferred merger would have been CBS-Time Warner given the very nice overlap and a complementary nature between sports, news, and the fact that CBS has a broadcast business. They share the NCAA March Madness rights for many, many years to come. So I would have preferred to see that, but unfortunately, the Redstones—which control CBS and Viacom through super voting control—prefer to maintain and retain their voting control.

And as a result, Time Warner being one of the few independent companies out there aside from Disney—and Disney was too big for AT&T to consider and, therefore, that’s essentially what led AT&T to the path of Time Warner and what led Time Warner to the path of AT&T. So

we'll see what happens. It'll probably take a year or so for this to get sorted out.

Mark: Very helpful, thank you, Greg.

Well, this concludes the questions and the prepared remarks and Q&A for today's U.S. Value webcast. We thank you, our clients and listeners, for the participation in today's third quarter 2016 webcast. Invite you, your colleagues and other shareholders to listen to the playback of this recording and view the presentation slides that will be made available on our website, FPAFunds.com, over the coming few days. 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 because we appreciate the feedback that one provides. 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, as is in the case today, 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 Fund.

We want to ensure that you understand the views expressed on this call are as of today, October the 26th, 2016, 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 or should not be construed as an offer of solicitation with respect to any such securities, products or services discussed. Past performance is not a guarantee of future results. It should not be assumed that the 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 the accuracy and completeness cannot be guaranteed.

You may request a prospectus directly from the FPA Fund's distributor, UMB Distribution Services, or from our website, FPAFunds.com. Please read the prospectus and then U.S. Value Fund's policy statement before investing. FPA U.S. Value Fund is offered by UMB Distribution Services, LLC. This concludes today's call and, again, thank you all for listening.

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