



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

## Year End 2018 Webcast Presentation

Presented by:

Gregory R. Nathan, Portfolio Manager

# FPA U.S. Value Fund, Inc. – year end 2018 summary

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## Summary:

- We believe the backdrop for investing in large capitalization, growing companies remain attractive
  - 10-year U.S. treasury rate below 3% is near historical lows
  - Unemployment rate is low
  - Slowing, but still growing U.S. economy
  - Valuation of U.S. equities are reasonably attractive after the market decline in 2018
  - The valuation spread between companies the market perceives as having above average long-term organic growth vs. those whose terminal values are in question continues to widen
    - Therefore, we believe it is imperative to avoid investing in businesses with eroding fundamentals and stick to high quality companies we believe have sustainable competitive positions that should result in above average long-term organic growth

## Today's agenda:

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

# Fund highlights

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## Investment objective

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

## Goal

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

## Investment philosophy

- Seek to avoid permanent capital impairment
- Seek to invest in, what we believe are, quality, growing businesses at attractive valuations
- Look for companies with good management

\* Comparison to the S&P 500 Index is being used as a representation of the "market" and is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

# Portfolio Manager: Gregory R. Nathan

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## Professional background

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

## Professional biography

- 2015-Present: Portfolio Manager of FPA U.S. Value strategy
- 2007-2015: Senior Analyst for FPA Contrarian Value strategy
- 2005-2006: Managing Member of Coldwater Asset Management, LLC
- 2003-2004: Analyst for FPA Contrarian Value strategy
- 2002-2003: Analyst for Lakeway Capital
- 1998-2002: Earned Bachelors Degree in Business Administration (with distinction) from the University of Michigan

## Alignment of interests

- Significant personal investment with over \$1mm invested in the Fund
  - Added to investment during Q4'18 market sell-off

# Investment philosophy

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## Seek to avoid permanent capital impairment

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

## Seek to invest in quality companies at attractive valuations

- Typically looking for **quality companies in healthy, growing industries**
- Seek investments in companies that have above-average earnings growth, free cash flow that can be returned to shareholders, as well as the potential for expanding earnings multiples

## Definition of quality

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

## Preference for companies with good management

- We view good management as those who make the right operational and capital allocation decisions to put the company in the best position to achieve sustainable, above average revenue and earnings growth over the long-run
- However, we may consider investments in what we believe are good businesses that are not well-managed provided executives may be replaced and there is an ample discount to our estimate of intrinsic value
  - The quality of the business and valuation are generally the most important investment criteria

# Portfolio construction parameters

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## Broad market capitalization

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

## U.S. companies

- At least 80% of net assets will be invested in U.S. companies<sup>1</sup>

## Opportunistic foreign investments

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

## Appropriate diversification

- Individual positions will not exceed 5% of total assets at time of purchase
- Cash typically will not exceed 10% of net assets

<sup>1</sup>Includes companies which alone or on a consolidated basis derive the highest concentration of annual revenue, earnings, or assets from goods produced, sales made, or services performed in the U.S.

This summary of portfolio construction highlights targeted or "typical" portfolio construction goals within the Fund. However, specific investment criteria may vary. The Prospectus describes the Fund's investment objective and policies and other matters of interest to prospective investors. **Please read the Prospectus carefully before investing. Please refer to the end of the presentation for important disclosures.**

# Portfolio construction process

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## Create a diversified portfolio seeking above average risk-adjusted returns over the long-term

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

## Deconstruct the S&P 500

- Eliminate or underweight 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 rates and valuation
- Consider select investments outside the U.S. and/or S&P 500 that we believe offer compelling risk-adjusted returns
- The goal is to be as close to fully invested as possible
  - Cash is a byproduct of what remains after making 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 companies' prospective returns over the long-term

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# Portfolio construction process (continued)

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## Portfolio construction process changed in Q4'17

- During the first nine quarters of my tenure as portfolio manager for the Fund, the portfolio was constructed in a much more concentrated, with an average of 27 disclosed investments, purely bottoms up manner by company and sector
  - Over the last five quarters ending 12/31/2018 the portfolio has had an average of 65 holdings per quarter
- For a majority of the past few years, due to our prior view on valuation, the portfolio was significantly underweight technology companies\*, which have experienced some of the best growth in the market\*\* over this time
  - This was a major contributor to the Fund's underperformance from 2016-2018
  - Over the past year, as we continued to do our research on an increasing number of high quality technology related companies, we have added select names to the portfolio
    - Now the Fund has a more in-line weighting to technology relative to the market\*\*

\* "Technology companies" refers to Fund's underweight to companies in the GICS Information Technology sector from 2016 to the beginning of 2018. However, as of September 24, 2018 many companies that were historically classified under the GICS Information Technology sector have now been reclassified into a new GICS sector under Communication Services.

\*\* Using the S&P 500 Index as a proxy for the U.S. stock market.

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# Portfolio characteristics as of December 31, 2018

	FPA U.S. Value Fund	S&P 500
Large Capitalization exposure	90.6%	96.8%
Top 5 Holdings exposure	29.7%	15.3%
Top 10 Holdings exposure	46.8%	21.0%
Foreign Securities exposure	5.2%	0.0%
12-Month Forward P/E	16.5x	15.1x
Price/Book	3.7x	3.0x
Return on Equity (1-year)	25.5%	21.2%
EPS Growth Historical (2-year, \$weighted median)	21.9%	19.7%
EPS Growth Forecast (2-year, median)	14.4%	10.6%
Revenue Growth Historical (2-year, \$-weighted median)	15.6%	11.5%
Revenue Growth Forecast (2-year, median)	11.7%	8.5%
Debt/Equity	1.3x	1.3x
Median Market Cap (billions)	\$84.04	\$18.50
Weighted Average Market Cap (billions)	\$308.5	\$201.1

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

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

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

Debt/Equity (debt-to-equity ratio) is a ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets.

Portfolio composition will change due to ongoing management of the Fund. Comparison to the S&P 500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. **Past performance is no guarantee of future results. Please refer to the end of the presentation for important disclosures.**

# Sector breakdown as of December 31, 2018

Sector	FPA U.S. Value Fund	S&P 500
Information Technology	21.4%	20.1%
Communication Services	19.5%	10.1%
Consumer Discretionary	14.6%	9.9%
Financials	13.6%	13.3%
Industrials	13.2%	9.2%
Health Care	10.0%	15.5%
Materials	0.6%	2.7%
Consumer Staples	0.0%	7.4%
Energy	0.0%	5.3%
Real Estate	0.0%	3.0%
Utilities	0.0%	3.3%
<b>Total</b>	<b>92.9%</b>	<b>100.0%</b>
<b>Other</b>	<b>5.0%</b>	
<b>Cash and equivalents (net of liabilities)</b>	<b>2.1%</b>	

Due to rounding, percentages may not total to 100%. Sector classification scheme reflects GICS (Global Industry Classification Standard). Portfolio composition will change due to ongoing management of the Fund. Comparison to an index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. **Please refer to the end of the presentation for important disclosures.**

# Holdings as of December 31, 2018

## Portfolio holdings highlights

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

<b>Information Technology</b>	<b>21.4%</b>
Adobe Systems	1.0%
Apple	5.1%
Cisco Systems	1.4%
Mastercard	2.4%
Microsoft	5.4%
PayPal	1.1%
TE Connectivity	0.8%
Visa	4.2%

<b>Industrials</b>	<b>13.2%</b>
Airbus	3.8%
Boeing	1.3%
FedEx	1.0%
General Dynamics	0.7%
HD Supply	0.6%
Honeywell	0.4%
Ingersoll-Rand	0.5%
Lockheed Martin	0.8%
Northrop Grumman	0.7%
Raytheon	0.8%
Union Pacific	1.2%
UPS	0.9%
United Technologies	0.5%

<b>Financials</b>	<b>13.6%</b>
American Express	0.9%
Aon	0.6%
Bank of America	2.1%
Berkshire Hathaway	2.0%
Blackstone	1.0%
Citigroup	1.3%
JPMorgan Chase	2.5%
KKR	2.1%
Morgan Stanley	1.1%

<b>Communication Services</b>	<b>19.5%</b>
Activision Blizzard	0.7%
Alphabet - Class C	8.5%
CBS	0.6%
Comcast	1.5%
Facebook	5.3%
Madison Square Garden	1.7%
Twenty First Century Fox	1.2%

<b>Consumer Discretionary</b>	<b>14.6%</b>
Altaba	0.9%
Amazon	5.4%
Booking Holdings	1.6%
Carnival	0.5%
Home Depot	1.0%
Lennar Corp.	1.1%
Low e's	1.6%
LVMH Moët Hennessy - Louis Vuitton	0.5%
Marriott International	0.9%
Norwegian Cruise Line	0.6%
Royal Caribbean Cruises	0.5%

<b>Health Care</b>	<b>10.0%</b>
Abbott Labs	0.6%
Anthem	3.1%
Cigna Corp.	0.8%
IQVIA Holdings	0.5%
Medtronic	0.6%
Thermo Fisher Scientific	0.9%
Unitedhealth Group	3.5%

<b>Materials</b>	<b>0.6%</b>
Dow dupont	0.6%

<b>Undisclosed</b>	<b>5.0%</b>
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<b>Cash and Equivalents (Net of Liabilities)</b>	<b>2.1%</b>
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<b>Total net assets</b>	<b>100.0%</b>
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# A few of the Fund's largest technology investments vs. S&P 500's largest consumer staples products companies



	Information Technology/ Communication Services			Household & Beverage Products		
	Apple*	Alphabet*	Facebook*	Procter & Gamble	Coca- Cola**	PepsiCo
ROE Forward	85.4%	17.1%	22.4%	22.1%	52.6%	77.9%
Forward P/E	12.7	21.4	17.6	20.5	22.0	18.8
Forward P/E (ex. net cash & net interest income)	11.5	19.0	16.1	N/A	N/A	N/A
Revenue Growth Forecast (2-year)	1.1%	19.8%	29.9%	1.8%	-2.9%	2.4%
EPS Growth Forecast (2-year)	6.2%	23.1%	9.9%	6.2%	7.8%	6.1%
Market Cap (\$ millions)	755,780	728,862	380,397	236,285	205,462	156,303
Net Debt (Net Cash)	(122,617)	(102,468)	(41,206)	21,347	22,579	21,219
Net Cash as a % of Market Cap	16.2%	14.1%	10.8%	-9.0%	-11.0%	-13.6%

\* Holdings that are currently in the Fund.

\*\* Note: Coca-Cola revenue growth forecast (2-year) from 2018E-2020E takes into account the sale of its bottling operations.

Source: Capital IQ

Return on Equity (ROE) a measure of financial performance calculated by dividing net income by shareholders' equity. The ROE forward is the estimated ROE for the next four quarters.

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

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# Performance – net of fees

## Trailing Performance (%)

As of Date: 12/31/18	1 Year	YTD	QTD	10 Years*	5 Years*
FPA U.S. Value Fund, Inc.	-9.81	-9.81	-16.21	10.98	1.65
S&P 500	-4.38	-4.38	-13.52	13.12	8.49
US OE Large Blend	-6.24	-6.24	-13.54	11.43	6.28
Russell 2500	-10.00	-10.00	-18.49	13.15	5.15

Calculated using Morningstar Direct. Periods greater than one year are annualized. Comparison to the S&P 500, US OE Large Blend and Russell 2500 is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

**Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. Current month-end performance data may be obtained at <http://fpafunds.com> or by calling toll-free, 1-800-982-4372. The Net Expense Ratio as of most recent prospectus is 1.13%.**

The total expense ratio is 1.22% (as of most recent prospectus). The Investment Advisory Agreement between the Fund and FPA requires FPA to reduce its investment advisory fee to the extent necessary to reimburse the Fund for any annual expenses in excess of 1.5% of the first \$30 million and 1% of the remaining average net assets of the Fund for the year. This agreement is coterminous with the Investment Advisory Agreement which may be terminated by the Board, the vote of a majority of the Fund's shareholders or the Adviser.

\* On September 1, 2015, the Fund changed its name to FPA U.S. Value Fund, Inc., and the current portfolio manager assumed management of the Fund on that date. Contemporaneous with this change, the Fund transitioned to its current investment strategy. Performance prior to September 1, 2015, reflects the performance of the prior portfolio manager and investment strategy. Performance prior to September 1, 2015 is not indicative of performance for any subsequent periods. The transition took place during time period from September 1, 2015-September 30, 2015.

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



## Question & Answer

First Pacific Advisors, LLC

# Important Disclosures

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The statements contained herein reflect the opinions and views of the portfolio managers as of the date written. 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.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities or sectors are for informational purposes only and should not be construed as a recommendation by the Fund, the portfolio managers, FPA or the distributor to purchase or sell such securities or sectors, and any information provided is not a sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at [www.fpa.com](http://www.fpa.com).

Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

**You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at [www.fpa.com](http://www.fpa.com), by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.**

**Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. The Fund's net expense ratio as of most recent prospectus is 1.13%. The total expense ratio is 1.22% (as of most recent prospectus). Current month-end performance, which may be higher or lower than the performance data quoted, may be obtained at [www.fpa.com](http://www.fpa.com) or by calling toll-free, 1-800-982-4372.**

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Value style investing presents the risk that such holdings or securities' intrinsic value may never be realized by the market and that their prices may go down. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods. Securities selected by portfolio managers using a value strategy may never reach their intrinsic value because the market fails to recognize what such portfolio managers consider to be the true business value or because the portfolio managers have misjudged those values.

# Important Disclosures – cont'd

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Significant taxable distributions impact fund expenses which in turn negatively impacts Fund performance. Please consult your tax advisor regarding higher capital gains distributions due to a change in portfolio strategy.

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

Morningstar Large Blend Average (US OE Large Blend) consists of portfolios that invest in a variety of large US stocks. Stocks in the top 70% of the capitalization of the US equity market are defined as large-cap. The blend style is assigned to funds where neither growth nor value characteristics predominate. The average does not reflect the effect of fund sales charges.

The Russell 2500 Index consists of the 2,500 smallest companies in the Russell 3000 total capitalization universe. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization. This index is considered a measure of small to medium capitalization stock performance.