Q4-2020 FPA U.S. Core Equity Fund
(Formerly FPA U.S. Value Fund)
January 28, 2021

Note: Items in brackets [ ] are meant to be clarifying statements but are not part of the actual audio recording of the webcast.

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You should consider the FPA U.S. Core Equity Fund ("FPPFX" or the "Fund") 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 the Prospectus carefully before investing.

(00:00:00)

Moderator: [Please reference slide 1] Hello, and welcome to today's webcast. My name is (inaudible @ 00:00:06), 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 may submit text questions via the Q&A panel at any time during today's presentation. Type your questions in the text box and click New Question to submit. If you experience any technical issues during the broadcast, we suggest that you first refresh your browser. If that does not resolve the issue, please send a message through the Q&A panel.

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

Kristina: Thank you. Good afternoon and thank you for joining us today. We would like to welcome you to FPA US Core Equity Fund's Second Half 2020 Webcast. My name is Kristina Surkova, and 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 of the Fund. As a reminder, Greg took on the management of this fund on September 1, 2015.

As part of today's agenda, we will cover fund highlights, market commentary, performance and portfolio activity, and then open it up to question and answers. At this time, it is my pleasure to hand the call over to Gregory Nathan.

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Gregory: [Please reference slides 2 and 3] Thank you for that introduction. The mutual fund formerly known as FPA US Value has been renamed FPA US Core Equity, in an effort to better describe our investment strategy and how it can be used by investors. We believe the Fund is [an attractive] substitute for the S&P 500, and can be a core equity investment to help achieve long-term financial goals. Over the past five years, it has been our goal to generate returns in excess of the index over full market cycles, and it will continue to be our raison d'être. To that end, the Fund formally adopted the S&P 500 as its benchmark.[1]

[1] Effective December 28, 2020, the Fund's name was changed from FPA U.S. Value Fund, Inc. to FPA U.S. Core Equity Fund, Inc. and the Fund adopted the S&P 500 as a formal benchmark. The Fund will be less diversified than its benchmark, and may hold non-index securities or securities that are not comparable to those contained in the benchmark. The benchmark may hold positions that are not within the Fund's investment strategy. The benchmark is unmanaged and does not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. An investor cannot invest directly in the benchmark.

The reason why we chose to compete against the S&P 500 is because the index has delivered admirable results over time. Therefore, if we can meaningfully improve upon something that is already pretty good, and charge a reasonable fee for attractive, risk-adjusted performance, we continue to believe that is a compelling offering.

We did not change the name of the Fund because of a change in our investment philosophy, which has remained the same since inception. It was simply because the word “value” means different things to different people. To us, “value” means buying something for less than it is worth, and hopefully a lot less. However, to certain market participants, “value” means buying low-multiple stocks without considering the industry and business qualities that help determine their long-term growth rates. The reality is if you buy a low-multiple stock where the quality of the business is at least average, meaning it produces at least average long-term growth, chances are it is actually a decent value. However, if the business is growth-challenged or worse, in perpetual decline, odds are it is a value trap.

We attempt to ascertain value by looking at the relationship of price to quality; quality being a company's ability to grow its business at an above-average rate both in terms of magnitude and duration.

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People often ask us what kind of investor are we: "value" or "growth"? My answer is both. We expect that the Fund will achieve an above-average rate of return by first and foremost, generally avoiding below-average industries and companies that are structurally growth challenged.

Secondarily, we focus on investing in high-quality, above-average growing industries, and companies within them. Third, we attempt to make investments in these high quality companies at the greatest discount possible to what we believe they will ultimately be worth in the future.

By doing these things well on a consistent basis, we believe we can achieve our goal of market-beating returns in a thoughtful, risk-adjusted manner, with a reasonably diversified portfolio. What that means is that we are just as open to buying a high-multiple stock with phenomenal growth

as we are to buying a low-multiple stock with lower growth. Honestly, we are agnostic.

But the Fund's portfolio companies need to have at least average growth over the long term. We taketh what the market giveth. In certain market environments, higher-multiple stocks will actually be a better value, while in others, it will be lower-multiple stocks. But we aim to avoid investing in low-multiple stocks whose businesses are in decline, or high-multiple stocks whose businesses cannot sustain above-average growth over the long term.

[Please reference slide 3] I am proud to report that the Fund had a solid second half of the year, and overall a very good 2020. For the year, the Fund returned 24.8%, and 26.36% gross before fees and expenses, which compares favorably to the S&P 500's total return of 18.4%. The Fund outperformed the index by nearly 8% before fees and expenses, and by 6.4% net of all fees and expenses.[2]

What is worth noting about our performance is that in the first half, during a very severe and abrupt bear market, followed by a quick and

sharp recovery, the Fund returned 2.5% net, or 3.11% gross before fees and expenses, compared to negative 3.08% for the index.

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And as the market continued to move higher in the second half; the Fund returned approximately 21.8% net, and 22.6% gross, which is essentially in line with the S&P 500's 22.2% total return. The overall strong outperformance for 2020 was a combination of avoiding and being underweight certain sectors we believe will continue to be growth-challenged in the coming years, and then secondarily, picking high-quality, mid- to large-cap growing companies within sectors we believe have sustainable, above-average, secular tailwinds, particularly as it relates to the internet, digital, and mobile revolution.[3] In fact, the coronavirus has accelerated the relative growth and market share gains of many established, pre-COVID-19 winners.

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[2] **Past performance is no guarantee, nor is it indicative, of future results.**
[3] 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

To understand how we generated this outperformance, one should appreciate the journey we've been on these past five years. When we took over the Fund in late 2015, we came in with the mindset of putting together a portfolio solely through the lens of a senior analyst.[4] For the first two years, the Fund was highly concentrated, averaging just 27 disclosed investments. We attempted to run the same playbook that worked so well for us as a successful analyst; essentially, mean reversion.

As an analyst, I focused on out-of-favor industries and companies. My belief was that by focusing on average to above-average businesses, over time these companies' results would not be as bad as feared, leading to multiple expansion coupled with decent earnings growth. However, what we saw time and time again over the past few years was that these previously above-average businesses were more often than not continuing to miss expectations. As fundamentals eroded, so too did their stock prices. After two very frustrating years in 2016 and 2017, we knew we had

[4] 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.

to be more diversified, since we were seeing many historically predictable businesses become increasingly unpredictable.

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However, as we underperformed again in 2018, what we also understood was that not only was the vast majority of global growth over the past few years technology-related, but technology was also responsible for disrupting a lot of historically high-quality businesses we had an affinity for. We lacked a market-weighting of technology over the first three years because the multiples of so many of these companies were above average. Growing up as a traditional value investor, we learned to be distrustful of companies that had spectacular growth because most companies ultimately become ordinary due to basic economic principles, such as market saturation and increasing competition. As growth slows, multiples contract; thus, we rarely invested in above-average multiple stocks.[5]

[5] 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.

However, what we finally realized was that we are in the early innings of several major growth trends tied to the internet, digital, and mobile revolution. So towards the end of 2018 during the market selloff, we took the opportunity to become more invested in technology companies and other companies we believe will be beneficiaries of technology for many years to come. Thus, for the first time since managing the Fund, we have finally had a market-weighting of information technology entering 2019, which partly explains why we were able to outperform meaningfully the last two years.

Our sector exposures heading into 2020 remained fairly similar to 2019. And as the market sold off many stocks indiscriminately in Q1 2020, we took the opportunity to further upgrade the quality of the portfolio with minimal tax consequences [for the Fund].[6] As a result, we believe the Fund is well-positioned to continue to capitalize on many of the key

[6] The Fund's distributions are taxable, and will be taxed as ordinary income and/or long-term capital gain, unless you are investing through a tax-deferred arrangement, such as an IRA or 401(k) plan. Please consult the Fund's Prospectus and your accountant for more information on how this may affect your investment.

secular growth investment themes we will discuss later on in the presentation.

With all that being said, we believe the backdrop for investing in mid- to large cap growing companies continues to be relatively attractive to other asset classes, but less so on an absolute basis, given how much valuations have risen over the past couple years. The 10-year US Treasury rate, at approximately 1%, remains near all-time historic lows. This is helping drive investor demand to high-quality growing and liquid mid- to large cap equities.

A large part of this increase in valuation can be attributed to long-term interest rates declining. The 10-year US Treasury yield declined from approximately 1.9% at the end of 2019, to 0.9% at the end of 2020.

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

losers. Therefore, it is imperative to avoid investing in potential losers whose 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. Following that, we will discuss some key investment themes which are helping shape the portfolio. After that, we will give an update on the Fund's performance and portfolio activity. Lastly, we will go through Q&A. 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.

[Please reference slide 4] Regarding the Fund overview, the primary objective of the US Core Equity strategy is 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. The bottom line is we believe we have created a core equity fund that is a better version of the index. There are many great companies in the S&P 500,

and several outside of it. However, there are a lot of mediocre and subpar companies in the index that we believe will have a difficult time growing at or above the rate of GDP growth in the coming years.

As a result, when constructing our portfolio, we feel it makes sense to begin by trying to eliminate the worst parts of the index by being willing to avoid altogether and significantly underweight certain sectors. Then we look to accentuate what we believe is the top 40%. If we are successful in continuing to do that, we believe the Fund will generate further meaningful risk-adjusted outperformance in the future.

[Please reference slide 5] 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. As of December 31, [2020] the portfolio is [approximately] 93% invested in U.S. companies.

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At the same time, we have the ability to make opportunistic foreign investments, which stands at nearly 7% of the portfolio. 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 undervalued, high-quality companies that should compound in value over time. Therefore, cash will usually not exceed 10% of the portfolio. Cash and equivalents made up 0.1% of the Fund as of December 31[, 2020].

[Please reference slide 6] 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.

Our view is that the world is dynamic, with change taking place seemingly faster than ever before. Therefore, it is critical to have a reasonably diversified portfolio to mitigate unforeseen risks, namely disruption to 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"[7].

We start by eliminating or underweighting unfavorable sectors due to relative inferior quality, lack of above-average growth, and/or unattractive valuation. For 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 organic revenue and earnings growth, and valuation.

We 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, provided we can find the requisite high-quality companies at attractive valuations.

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Cash is a byproduct of what is left over from having investments in the industries and companies we view attractive at the relative position

[7] Published in 1944, music written by Harold Arlen and the lyrics by Johnny Mercer.

weightings we deem appropriate based on sector risks, coupled with our estimate of the companies' prospective returns over the long term.

The biggest thing we struggle with in managing the portfolio currently is that a lot of the companies we like the most generally do not have the cheapest valuations at the moment, whereas the companies with the lowest valuations typically do not have businesses in which we wish to invest for the long-term. At the same time, for lack of a better term, cash is trash in a world where the monetary printing presses seem unabated, as more fiat currency continues to flood the economy, and interest rates remain near historical lows. Given the current choices, we choose to remain diversified to mitigate risk, and to invest in high-quality businesses even if we do not love the current valuations. This helps explain our low cash levels.

[Please reference slide 7] In order to deliver on our goal of outperforming the S&P 500, we believe that it is imperative to avoid the worst parts and embrace the best aspects of the index. We have delivered meaningful outperformance over the past two years in a thoughtful, well-diversified, risk-adjusted manner. We seek alpha by trying to avoid the

biggest losers, and then secondarily, by trying to pick the greatest winners.

First, we have explained which sectors we are purposely avoiding and underweight as well as the reasoning behind the ones we are overweight. Second, while we are surgical in choosing our largest investments, our top ten positions do not exceed more than half of the portfolio. Additionally, we have averaged nearly 70 investments over the past two years, with an approximately 40% average overlap with the index. What is interesting to note is that many investors have the view that in order to outperform the market over time, you have to run with a concentrated portfolio. However, the numbers do not support that.

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For example, from 2016 to 2020, the S&P 500's cumulative total return over those five years was 103%. The top 50 contributing stocks to the index's performance had a median cumulative return of approximately 178.2%, while the top 250 contributing stocks had a median cumulative return of 143.8%. In theory, one could put together a highly diversified

portfolio of 250 equally weighted stocks over the past five years and generated alpha of 4.3% per year, or over 40% cumulatively.

However, the bottom 100 contributing stocks had a median cumulative return of negative 25.6%. The negative alpha of the median bottom 100 was negative 128.6%. The bottom 50 stocks had a median cumulative return of negative 43.4%. This tells you it is just as important, if not more important, to avoid big losers compared to picking winners.

Another key point to make is that the top contributing stocks over these five years were in a variety of sectors, including information technology, communication services, consumer discretionary, healthcare, financials, and industrials. Moreover, the same is true about the greatest detractors. Therefore, the main takeaway to me is that one can certainly outperform, and outperform meaningfully, with a diversified portfolio. However, what it comes down to is a good batting average, i.e., having more of those stocks in your portfolio that are in the top 250 and as few as possible in the bottom 100.

Another crucial reason we believe a portfolio should be reasonably diversified is due to increasingly faster disruption to business models

across many industries. To better manage this risk, we want to operate with a sense of less conviction and more paranoia. As public investors, we can only know so much. Placing too much faith in management, who are human and thus often wrong, is not the answer. By having 50-plus positions and a wish list of companies we would like to invest in at the right valuation, we are not reliant on any one investment. Thus, when a portfolio company disappoints us, we are mentally free to sell and move on. Stocks are just stocks, and serve investors only one purpose: to generate good returns. When they cease to do that, they do not need to be in our portfolio. That is the beauty of the public market. It gives us liquidity to freely buy and sell.

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[Please reference slide 8] I want to take some time to explain how the portfolio is positioned to benefit from some of the largest forces driving global economic growth; namely, the internet, digital, and mobile revolution. We believe a majority of the portfolio should benefit from these multi-secular trends including digital advertising, cloud computing, ecommerce, digital payments, mobile operating systems, digital media,

digital banking, software as a service, digital and mobile gaming, digital health, online travel bookings—once travel comes back to more normalized levels, 5G, cryptocurrency, and autonomous vehicle software.

Globally, companies are in the early innings of cloud adoption across enterprises. Amazon Web Services, or AWS data, suggests that over 90% of compute spend is still on-premises, and less than 5% is in the cloud, which translates into a large market opportunity.[8] Oppenheimer estimates that enterprises have only migrated about 20% of workloads to the cloud in the U.S., and worldwide enterprise cloud adoption is even less, which helps explain why this industry stands to have robust growth for many years to come.[9] New use cases from the likes of the internet of things, artificial intelligence, and autonomous vehicles may help fuel industry growth.

As you can see, many of our portfolio companies are positioned to benefit from multiple secular growth trends. I would also refer you to our

[8] Jefferies Equity Research report dated 11/26/19. Data source: Gartner, Jefferies.
[9] Oppenheimer Equity Research report dated 12/6/19.

second half 2019 and first half 2020 webcast presentations, which go into further detail on some of these areas of secular growth.

[Please reference slide 9] As more people around the world are habitually connected to the internet, the growth of ecommerce should continue for many years. Ecommerce sales are expected to be up 50% in the US, and 60% globally over the next four years through 2024.

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[Please reference slide 10] As global ecommerce grows, how the economic pie is split amongst the various supply chain participants will continue to evolve. These are some of the most important charts to understand, and really helps to put into context why we are so bullish on so many of our portfolio companies.

The companies that have the strongest direct relationships and brands providing the best overall customer experience [we believe] are positioned to capture more of the pie over time. In this example of a $100 retail sale, half of the economics is going to the brick and mortar retailer. Thus companies like Nike and Adidas are well-positioned to sell more of its products direct to consumer, or DTC, and capture a higher margin of

those sales. Nike and Adidas have stated that online DTC sales are approximately two to three times more profitable than brick and mortar retail sales sold through third parties, and looking at this chart helps explain why.[10]

As ecommerce grows, certain distribution expenses, store rent, and associated overhead, as well as traditional advertising expenses, are reduced, freeing up more spending on effective customer acquisition. Therefore, performance marketing is not purely advertising. Rather, it is money spent effectively on acquiring customer transactions. Essentially, it is the economic rent of ecommerce.

In an ecommerce-centric model, a sizable chunk of the economics of a sale that would have gone to the retailer, and in many cases a distributor, is freed up and can be reallocated to find additional customers more cost-effectively. Evercore ISI estimates that in a $100 traditional

[10] References to individual securities or sectors throughout this presentation 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.

physical retail sale that moves online, advertising spend for that sale increases by 125%. In our view, the market opportunity for the likes of Alphabet's Google properties and Facebook's social media platforms have often been defined too narrowly as advertising within a traditional framework based on a physical retail-centric model.

Given that people are spending an increasing amount of time using search and social media, companies are increasingly advertising more on Alphabet's and Facebook's platforms to reach targeted consumers cost-effectively. If you think about it, if a DTC sale for Nike and Adidas is two to three times more profitable than a retail sale of the same product, companies like Nike and Adidas are willing to spend an increasingly greater amount of money on digital advertising in order to get more customers to buy products directly through its app or website.

With over 1 billion active monthly active users on Instagram, it is logical that Nike and Adidas should be willing to spend an increasing amount of money on that platform to drive those much higher margin DTC sales. Thus, it stands to reason social media platforms like Facebook and Instagram will likely see its pricing continue to rise nicely over time.

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And in the case of Amazon, which does not have a lot of those traditional physical retail expenses, it is able to reallocate resources toward one-day shipping, and utilizing the gross profit dollars from a growing number of sales to help pay for that costly expense and reinvest more into its delivery network. Over the past few years, Amazon has been growing its data and fulfillment square footage within smaller, local centers within urban areas where there is population density. This allows it to increase its total addressable market by being able to sell consumers various goods and services that are more time sensitive, such as groceries, meals, and healthcare.

As Amazon delivers an increasingly greater percentage of a growing ecommerce market, its cost per item delivered should decline over time, and result in an even greater competitive advantage. In my opinion, this is a virtuous cycle that will continue to distance Amazon from the competition.

[Please reference slide 11] Regarding the portfolio’s holdings, we’d like to point out a few highlights. We believe our companies operate within

secularly growing industries. The aforementioned key investment themes are helping fuel above-average growth for many of the Fund's portfolio companies. In our view, the Fund's holdings have strong competitive positions due to advantages stemming from having large scale and a low-cost structure, superior products and services, and/or high-quality brands. A majority of these companies are among the top players in their respective industries.

[Please reference slide 12] I think it's worth understanding U.S. Core Equity's portfolio characteristics compared to the S&P 500. While U.S. Core Equity is reasonably diversified, with 82 investments, 62 of which are disclosed, we are more concentrated than the index. U.S. Core Equity has 36.5% of the disclosed portfolio in its top five holdings compared to 22.5% for the index. Our top 10 disclosed investments make up about half the portfolio compared to 27.4% for the index.

One key differentiator is nearly 7% of our disclosed portfolio is invested in foreign equities while the S&P 500 has none. Today you can see that the median and weighted average market cap of our portfolio is considerably higher than the index. That is because some of the largest

companies in the index, such as Apple, Microsoft, Amazon, Alphabet, and Facebook, are some of our largest positions. This also contributes a great deal to our portfolio's approximate 40% disclosed overlap with the index.

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 fact, you can see it in these companies' most recent quarterly earnings growth over the past few days.

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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 [the Fund] over the past two years have grown revenue and earnings faster than the index by approximately 7% and 4% respectively. At the same time, based on consensus estimates, over the next couple of years, expectations are both for revenue and EPS to grow at a faster rate of approximately 6% and 5% respectively. This is a material difference when compounded over many years.

Our companies also have about a 3.4% higher return on equity and carry less financial leverage, meaning that on an unlevered basis, return on capital for our portfolio of companies is even higher.

As you can see, the 12-month forward P/E of our portfolio [the Fund] compared to the S&P 500 is at a bit of a premium. We would argue that this valuation premium is well-deserved, given the [higher expected] growth rates our portfolio [the Fund's] companies have compared to the overall market.

Many people would say value investing 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, to us, means the ability to generate sustainable above-average earnings growth over the long term. We have found trying to find value by leading our quest 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 therefore what a good purchase price is.

We believe we will be able to continue finding value by taking a long-term view and hopefully being right on those views much 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.

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[Please reference slide 13] Now here is the portfolio sector breakdown as of December 31[, 2020]. There are disclosed investments in 7 of the 11 sectors in the index. Combined, these seven sectors, which make up approximately 90% of the index, account for 95% of U.S. Core Equity's disclosed portfolio. Relative to the S&P 500, the portfolio is overweight in information technology, communications services, and consumer discretionary. The Fund is underweight healthcare, financials, industrials, and consumer staples.

Probably one of the greatest differentiators for U.S. Core Equity is our willing to eschew entire sectors of the market. To that point, U.S. Core Equity currently does not have any disclosed investments in four of the 11 sectors that combined make up approximately 10% of the index. These

sectors are real estate, utilities, energy, and materials. 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.

Also keep in mind very few things last forever. Economic principles remain true, even for tech companies, which are at risk of disruption by competitors over time. Just look at IBM or Oracle for example, which continue to lose market share and grow slower than its end markets. Thus we are not advocating putting all our eggs in one basket. There are high-quality companies in non-tech sectors which we think have the ability to grow at above average rates for several years. However, they are rare, and those that do exist often have expensive valuations. As a result, [and to remain reasonably diversified] nearly 40% of the disclosed portfolio is in non-tech sectors.

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I think it is important to explain why the Fund has such large exposure to information technology ("IT") and communications services. These are the two largest sector exposures that are both tech-related and combined make up just about 60% of our disclosed investments.

Information technology is the largest sector in the index, and in the Fund because we believe it is one of the highest quality due to its consistent above-average organic revenue and earnings growth. We believe that the portfolio's exposure to IT and communications services will continue to benefit the Fund's performance going forward. This is certainly one of the core reasons for our meaningful outperformance over the past two years.

Given where valuations are currently across industries, we are comfortable with this composition. However, we would probably be inclined to further increase our exposure to tech on any broad-based, indiscriminate market weakness because that is where [we believe] most of the global growth is, and that is where we believe most of it will likely be for many years to come. Should that change, expect the portfolio's composition to as well. We want to invest wherever the growth is, at compelling valuations. We are mentally flexible and our portfolio will flex accordingly.

[Please reference slide 14] Lastly, and most importantly, let's further discuss U.S. Core Equity's performance. We explained the manner in which we put together the portfolio over the first three years [has

evolved and] is entirely different than how we've been managing the Fund since the end of 2018. Those changes of being more diversified and invested in the right sectors is what has allowed us to deliver on our goal of [generating returns in excess of the index] over the past two years. In fact, even including 2018, which was a year in which we transitioned the portfolio to its current, more diversified structure, we were still underweight technology, and this contributed to our underperformance. Nevertheless, we still managed to outperform the index, net of fees and expenses, over the past three years, by over half a percent per annum.

Because we are invested in so many [in our view] quality companies that we believe can deliver above-average organic revenue earnings growth for years to come, we [believe] can continue to hold these investments and deliver further tax-efficient returns. We are confident that our mentally flexible approach is working to our advantage, and will help us continue to deliver on our [the Fund's] goal[s] of continued growth of capital and outperformance.

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

Thank you to my fellow shareholders who have taken this journey with me these past five-plus years, and who look forward to continuing on. Your confidence and support mean the world to me.

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 me directly or to Kristina Surkova in Client Services to arrange a call with me. Now let's poll for questions.

(00:30:17)

Kristina: [Please reference slide 15] Thank you, Greg. Thank you to those of you who submitted questions in advance. We will address that first and then we will check for any questions that might have been submitted during the presentation.

Greg, any thoughts on the current market volatility and the companies that are in the news right now, such as GameStop and AMC Entertainment, and how it factors into your process?

Gregory: Good question. Let's see. I've been in the investment management business for the past 20 years. A good chunk of the earlier part of my career was spent as an analyst on the short side. What I have learned

spending many years shorting stocks is that it is an utter waste of time relative to the time spent trying to find the next great secular growth company.

The risk/reward of shorting is inherently horrible. Your maximum upside is 100%, and your maximum downside is theoretically infinite. Just think about all the supposed smart hedge fund money over the past many years that were short open-ended growth stocks like Amazon, Netflix, and Tesla.

The vast majority of money on the short side is from hedge funds because they are using it as leverage to fund the ability to take their long book north of 100% gross exposure. In theory, this practice can work well. For example, if you had 50% gross short exposure of the median bottom 100 S&P 500 stocks over the past five years, and used that to fund an additional gross long exposure of the median top 250 stocks in the index, that would have added 84.7% cumulative returns for a total cumulative return of 228.5%; compared to just being long the top median 250 stocks, which returned 143.8%.

Thus, one can see why, if executed properly, how hedge funds can justify charging high fees such as 1% to 2% management fees, and 15% to 50% performance fees on top of that.

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However, as we all know, leverage works both ways. If a manager is wrong about the shorts and/or longs, mistakes are amplified, and the results can be disastrous—which is what we have seen happen to some very well-known funds over the past week. Some of the largest hedge funds, which were somehow allowed to run with leverage of five times or more, will tell investors how amazing their risk control is coupled with how they have the best talent. At the end of the day, there will always be things that come out of left field, and these supposedly amazing models do not incorporate them because they are inherently backwards-looking.

What I can tell you is that one, investors, regardless if they are retail or institutional, should not be allowed to use this kind of leverage. The regulatory bodies need to institute lower limits here. Two, any investor, be it institutional or retail, getting involved in a highly shorted stock, is taking on more risk.

Generally, when you see a very high short interest, it often means that it is a battleground stock. In the case of GameStop, you have very thoughtful institutional and retail investors on the long side as well as the short side. Who is right? Only time will tell. But there are thousands of publicly traded stocks, and thus one does not need to get involved in these kinds of situations.

Three, at the end of the day, when it comes to investing, these are the following "free lunches" I have learned to enjoy:

A: be diversified, both in terms of number of positions and across industries;

B: have position size limits, such that one company cannot make or break your portfolio;

C: do not use leverage; and

D: always invest with humility, and a keen self-awareness that any investment thesis could be wrong, and if you get information that invalidates an investment, sell, cut your losses, and mentally move on. There are plenty of other stocks in the sea.

These comments all tie back to the investment objective to the US Core Equity strategy. We are trying to deliver above-average returns in a thoughtful, risk-adjusted manner. If you are looking for some fund to make you rich, do not expect it from us. However, we will hopefully compound your investment at a very nice rate of return over the long term.

(00:33:54)

Kristina: Thank you, Greg. We will briefly pause to check for live questions. There was one question. Please comment on market obligations with respect to various metrics such as Shiller P/E, Buffett indicators, cash levels…

Gregory: [Please reference slide 12] Sure. If we flip back to the slide that shows our portfolio characteristics in multiples of the portfolios vis-à-vis the index, I think that it will be helpful to answer this question.

And I discussed it in my comments, both in terms of the characteristics of the portfolio versus the index, as well as the reasons why we have such low cash levels.

So, as we look at today, right, the market, from a statistical standpoint, does not look cheap. But the market is made up of, in the case of the index, it's called 500 stocks. And the greater market, when you go

outside the index into the other indices—there are thousands of stocks out there. So, it really depends on the market you're looking at, right?

So, if you look at the top positions in our portfolio, let's call it—we call it FAAAM, that's our term; it stands for Facebook, Alphabet, Apple, Amazon, and Microsoft. So FAAAM, which represents about 36.5% of our portfolio, you will see that, as you look at the growth rate of these companies, these are phenomenal, phenomenal growing businesses. The balance sheets of these companies, they have net cash positions.

So, you've got double-digit growers with net cash positions generating huge amounts of free cash flow, very difficult to replicate business models, network effects, etc. And so if you compare these types of stocks to other stocks in the market or historically, you have to growth-adjust the multiples because I can show you plenty of stocks that have lower multiples, or even higher multiples that don't grow as fast as these companies.

So look, the market is made up of individual companies, and I think it's very difficult to just paint a broad brush. And again, we are in the early innings, in our opinion, of these massive secular internet/digital/mobile

trends. And so, when you take that into consideration, we don't think our largest positions are expensive, especially as it relates to a low interest rate environment that we have been in for quite some time, and are likely going to continue to be in for some time.

Clearly, if interest rates were to move up meaningfully—and by meaningfully, we mean at least a couple of hundred basis points, if not more—such that a 10-year U.S. Treasury were to be at least 3%, to be a real competitive alternative to being in these high-quality liquid large caps, that if you look at Microsoft that has a dividend yield of call it close to a percent, or around a percent, compare that to a 10-year U.S. Treasury.

So, you're getting about the same yield, yet Microsoft is growing its business top line double-digits, operating income a few hundred bps north of that, and then you factor in earnings per share, and you're talking about mid to high teens compounded growth. And the multiple net of cash is really reasonable given that growth.

That's how we think about it. But yeah, would we love for valuations to be cheaper? Sure. We'd always love for that to be the case. We had that opportunity in Q1 and Q2 of this year, and we took advantage of it by

upgrading the portfolio into these higher-quality companies that we think have sustainable long-term growth.

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Kristina: Thank you Greg. There are no other questions at this time. We want to thank everyone for listening to FPA U.S. Core Equity Fund's Second Half 2020 Webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: [Please reference slide 16 and 17] Thank you for your participation in today's webcast. We invite you, your colleagues, and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website within a few days at FPA.com. We urge you to visit the website for additional information about 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 reference slide 17] Please visit FPA.com for future webcast information, including replays. We post the time and date of upcoming webcasts towards the end of each current quarter. Webcasts are typically 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 strategies discussed today.

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We do want to make sure you understand that the views expressed on this call are as of today and are subject to change without notice and 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. Past information is no guarantee, nor is indicative of future results.

Any mention of individual securities or sectors should not be construed as recommendation to purchase or sell securities or investment subsectors, and any information provided is not a sufficient basis upon which to make to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the securities or sector examples discussed.

Any statistics or market data mentioned during this webcast have been obtained from sources believed to reliable, but the accuracy and completeness cannot be guaranteed.

You should consider each Fund's investment objectives, risks, charges, and expenses carefully before you invest. Investment, including investments in mutual funds, carry risks and investors may lose principal value. The prospectus details the Fund's investments, objectives and policies, risks, charges, and other matters of interest to a prospective investor. Please read the prospectus carefully before investing. The prospectus may be obtained by visiting the website at FPA.com, by email at crm@fpa.com, tollfree by calling 1-800-982-4372, or by contacting the Fund in writing.

The FPA funds are distributed by UMB Distribution Services, LLC.

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

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[END FILE]

The **S&P 500 Index** includes a representative sample of 500 hundred companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

12-Month Forward P/E ratio is a current stock's price over its "predicted" earnings per share for the next twelve months. If the forward P/E ratio is higher than the current P/E ratio, it indicates decreased expected earnings.

Active Share is defined as the percentage of the Fund's portfolio that differs from the holdings of the Fund's illustrative index. It is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the Fund and the weight of each holding in the index and dividing by two.

Return on Equity (ROE) is a ratio that provides investors with insight into how efficiently a company (or more specifically, its management team) is handling the money that shareholders have contributed to it.

Market capitalization is the aggregate market value of a company represented in dollar amount, it is computed based on the current market price of its shares and the total number of outstanding shares.

Operating margin measures how much profit a company makes on a dollar of sales, after paying for variable costs of production, such as wages and raw materials, but

before paying interest or tax. It is calculated by dividing a company's operating profit by its net sales.

The current prospectus for FPPFX can be accessed at: https://fpa.com/request-funds-literature

In addition, the most current prospectus can always be found at www.fpa.com.

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 1.22%. The total expense ratio is 1.43% (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 or by calling toll-free, 1-800-982-4372.