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

This transcript must be read in conjunction with the corresponding webcast slides, posted on fpa.com.

You should consider FPNIX and/or FPFIX (each a "Fund", and collectively the "Funds") investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details each Fund's objective and policies and other matters of interest to the prospective investor. Please read the Prospectus carefully before investing.

This transcript must be preceded or accompanied by a prospectus for the Funds. The prospectus for FPNIX dated January 31, 2019 can be accessed at: https://fpa.com/docs/default-source/funds/fpa-new-income/literature/fpa-new-income-prospectus_01-31-19_web-ready.pdf?sfvrsn=4. The prospectus for FPFIX dated April 30, 2019 can be accessed at: https://fpa.com/docs/default-source/funds/fpa-flexible-fixed-income-fund/literature/fpa-flexible-fixed-income-fund-prospectus_04-30-19_web-ready.pdf?sfvrsn=18. The most current prospectus can always be obtained by visiting the website at www.fpa.com, by calling toll-free, 1-800-982-4372, or by contacting each Fund in writing.

(00:00:00)

Moderator: Hello and welcome to today's webcast. My name is Emily 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'll have a question and answer session. You may ask text questions at any time. Click the green Q&A icon located in the lower left-hand corner of your screen, type your question in the open area and click Ask to submit. If you would like to view the presentation in a full-screen view, click the Fullscreen button in the lower right-hand corner of your screen. Press the Escape key on your keyboard to return to your original view. For optimal viewing and participation, please disable your popup blockers.

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

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

Kristina: Thank you, Emily. Good afternoon and thank you for joining us today. We would like to welcome you to FPA New Income and FPA Flexible Fixed Income First Quarter 2019 Webcast. My name is Kristina Surkova and I am relationship manager for the Fund.

The audio, transcript and visual replay of today's webcast will be available on our website FPA.com.

In just a moment, you will hear from portfolio managers Tom Atteberry and Abhi Patwardhan and members of the fixed income investment team.

Tom Atteberry is a portfolio manager at FPA and a partner at FPA. He joined the firm in 1997 and has been a portfolio manager for FPA New Income since 2004 and portfolio manager for FPA Flexible Fixed Income since its inception in December 2018.

(00:02:09)

Abhi Patwardhan is a partner at FPA and has been with the firm since 2010. He has been Director of Research for FPA New Income since April 2015, and portfolio manager for the Fund since November 2015. He has served as portfolio manager for FPA Flexible Fixed Income Fund since its inception in December 2018.

Before we get started, please note that FPA will be participating as an exhibitor in the upcoming Morningstar Conference in Chicago on May 8th through 10th, and Abhi Patwardhan will be at the booth in the afternoon of Wednesday May 8th. If you are attending the conference, please visit our booth or reach out to us to set up a specific time to connect with one of the FPA participants during the conference. You can reach out to your relationship contact at FPA or email us at crm@fpa.com.

[Please reference slide 2] Now, let's talk about what happened during the quarter. Credit markets reversed much of the losses experienced during the fourth quarter of 2018. Treasury yields continued to decline, reflecting investor expectations of slower economic growth. As a result, we continue to favor high-quality structured product securities while remaining cautious towards credit-sensitive securities.

As part of today's agenda, Tom and Abhi will discuss the highlights for both funds, provide commentary on the markets, review performance and portfolio activity, and then open it up to questions and answers. Tom, over to you now.

(00:03:58)

Thomas: **[Please reference slide 4]** Thank you, Kristina, and welcome to everybody that's on the call this afternoon. I'll start out by talking about the highlights of the two funds.

Short-term goals for the New Income Fund is an absolute positive return on a 12-month period, while the Flexible Fixed Income Fund is trying to seek that same, so the absolute return objective, over a 36-month period.

Long term, we're trying to get CPI plus 100, or inflation plus 100 basis points over a five-year period in the New Income Fund. Over that same five-year period, the Flexible Fixed Income Fund is trying to get inflation plus 200 basis points.

The major difference between the two is the maximum exposure we can have to less than A minus-rated securities in the New Income Fund is 25%, while that maximum in the Flexible Fixed Income Fund is 75%.

Let me make a couple of comments about Flexible Fixed Income. We got the end of the quarter, we had $64 million in assets, of which a little over $3 million of that has come from employees of FPA. The portfolio was about 75% invested at the end of the first quarter. As of last night, it's gotten up to itself to about 93% invested.

[Please reference slide 5] A couple of things on the statistics quickly. The New Income Fund at the end of the quarter had a 3.29 yield-to worst, a 1.69 effective duration, so that yield-to-duration calculation came up to about 1.95. The yield continues to be higher than either the Barclays Aggregate Index or the 1-3 Year Index and the effective duration continues to be significantly shorter than either.

Flexible Fixed Income Fund ended the quarter with a 2.91 yield-to-worst and a 1.93 duration, so again has a yield-to-duration ratio of 1.5. It's got about 88% of the yield of the Barclays Universal Index, but at the same time, it's only taken about two-thirds, or sorry, it's got about a third of the duration of the index as well.

Abhi will spend some time later on in the presentation getting into more detail about these statistics.

(00:06:14)

[Please reference slide 6] From a performance standpoint, just as an opening, the Flexible Fixed Income Fund has been around for three months so we didn’t really see any performance at this point. That we’ll do at a later date.

On this page, what we’re looking at and I want to focus on first is our one-year return in New Income is 3.06. It’s less than the Agg Index, sort of in line with the 1-3 Year Agg but, more interestingly, we’re about 117 basis points greater than CPI plus 100.

Over the three- and five-year periods, our performance continues to be good. We've outperformed the Bloomberg Barclays 1-3 Year Agg Index in both cases. We've produced somewhere between 40 and 45 basis points of real return versus CPI. And while we outperformed the Agg Index over the last three years, over the last five years, we have underperformed it.

[Please reference slide 7] More importantly, looking at sort of the volatility as defined by standard deviation, and to look at the total return, the Fund continues to be a low-volatility sort of, if you want to equate that to some form of risk, and higher return than looking at other short-term bond funds or the 1-3 Year Agg. The period of time we're looking at is here is when the Fed started raising rates, which we'll say is January of 2016 to the end of the first quarter of this year. Also, that standard deviation being so low can be driven by this, the biggest drawdown we had during that period was only 20 basis points, significantly less than any of the other indices.

[Please reference slide 10] On that, I want to go ahead and move forward into some market comments.

(00:07:52)

First I want to revisit something we've had before, which is a look at the 10-year treasuries yield minus the 3-month Treasury Bill yield; that's the graph at the top. If you look at the difference between those two, whether it's 1989, 2001 or 2007, those were all periods where that became negative, roughly 12-18 months later, the economy would enter a recession. Another way of saying that is those are the sort of inverted yield curves. At the end of the quarter, or the end of the period here, we were pretty much at a little over zero; it was fairly flat. But on the bottom right, we sort of focused more on the last year. And while it flattened over the whole period of time of 2018 forward, really the fourth quarter is when it flattened the most. It actually became inverted during March of this year for five days. The largest inversion was minus 5 basis points. And then you'll see that that red line sort of tails back up. That's really been driven by the 10-year treasury increasing in yield. The 3-months Treasury Bill has sort of set itself unchanged.

[Please reference slide 11] So how has that started to manifest itself in other parts of the market and why do we see that sort of activity? This graph has two elements on it. It has sort of an expected 12-month pace of Fed Fund hikes in blue, and a Citibank US Data Change Index.

Let me go to Citibank index first and just detail what we're looking at here. It's off the left-hand scale, it's the orange line. Zero would mean that the data change you saw in the last month is equal to the 12-month average that you've been seeing. So just sort of things are status quo. If that line is rising and it's above zero, what that tells you is your near-term data changes are happening faster, at a greater rate, than your 12-month average and then obviously the inverse is true when you get below zero.

The blue line is just what's the number of Fed Funds hikes that the futures market thinks is going to occur. That's all that the line is trying to tell you.

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So if you look at the period of time of April of ’16 through April of ’17, the orange line is rising, which means your economic activity is accelerating. During that period of time, you went from maybe you were going to have a half of a Fed hike, to you got as high as three.

So using that as a reference point, looking to the far right, you'll notice that really starting in about the middle of last year, that Data Change Index started to decelerate, or growth in the economy started to slow. Yes, it was still faster than its 12-month average, but it was coming at a slower and slower pace. Eventually, when you got to the fourth quarter, that rate of change dropped below zero, which went to you now growing at a rate slower than your 12-month average and at about that time, Fed Funds futures shifted from thinking somewhere between 2 to 3.5 hikes over the next 12 months to probably going to have one cut. That basically happened over roughly maybe a three- or a four-month period.

[Please reference slide 12] So looking at that futures market a little more closely, what was it tending to say over really what was a little over nine months? The graph you're looking at has a probability scale to it. Anything that’s a greater than 50% probability, you're saying okay, you're pretty much pricing in a Fed Funds hike. A minus 50% probability means you're factoring in a cut. The three periods that are being looked at is June of 2019, which is the blue line; the green line, which is September of 2019; and then December is the brown line. And during the fall, it was somewhere between a 60% and 80% probability you were going to move higher in Fed Funds rates over the next 12 months. But if you look again, and you look to the far right-hand side, you now have factored in the exact opposite, which is a pretty high probability, the cut is priced in, that you'll have one cut by December. You might do it by September. You probably won't do it by June is what those lines are telling you.

(00:12:09)

So this is a look at people's expectations of a) economic growth and b) Fed policy.

[Please reference slide 13] Shifting gears a little bit, I wanted to spend some time looking at leverage and how that's going to start to play in, if I have what looks like might be slower growth. The graph we have is various sort of breakdowns of size of debt markets in the US. The blue line is corporates and foreign bonds. We spent, in the fourth quarter we had spent time talking about the growth and why. I really want to stay focused on the orange line, which pretty much looks like a really good hockey stick, which are treasury securities.

[Please reference slide 14] That’s been a big area of growth. What I’ve pulled out here is just sort from a fiscal policy standpoint and a deficit standpoint, what might we expect looking out the next ten years. and this uses data from the Congressional Budget Office. It comes out twice a year. This is January of this year data.

So the graph on the right is a look at revenues (taxes collected), outlays (what they're spending on), and then the deficit or the difference between those two. And what you'll notice from that graph is that outlays are growing at a much faster rate than your revenues are. The end result is your deficit becomes larger and larger from a negative aspect.

The lower right-hand side of that graph is looking gross domestic product. That’s taking debt held by the public—got to finance the deficits—and what's that as a percentage. So what you have is debt growing faster than GDP. The end result is that government debt is becoming a larger and larger percentage. It goes from, roughly on this graph, in 2018 it was in the mid-70s, sort of 77-ish, to something approaching more like 92%. This needs to be funded somehow, some way, but this is really just the on-balance sheet. This is new debt and what we’re going to have to do to fund this is on-balance sheet.

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[Please reference slide 15] What this graph shows is more the off-balance sheet. This is how much of your defined pension plans entitlements have you funded with assets. The red line is the private pension sector, and it's roughly 80%, so its assets equal 80% of its liabilities. The blue line is state and local governments, where one of the biggest problems occurs, their assets only cover about 40%, and then the orange line is federal government pensions and they cover a little over 40% as well. So these are, you figure that 60% underfunding is an off-balance sheet liability that over time you're going to have to deal with.

[Please reference slide 16] So that is sort of the fiscal backdrop. What are some of the tools that we've seen used, and we feel probably will get used again, to deal with the problems from the previous pages?

Well, the first one, under the sort of experimental monetary policy tools we've all undertaken is Zero Interest Rate Policy that the Federal Reserve Bank undertook coming out of the Great Recession, used that as a way to try to stimulate economic activity. The ECB and the Japanese decided they would outdo us and so they used NIRP or a negative interest rate policy, of which both of them still have in place today. We, by the way, no longer have our zero interest rate policy in place.

The next tool that we used was Quantitative Easing, where the federal government, in this case the Treasury Department—the Federal Reserve Bank—would buy agency mortgages, mostly treasuries, try to decrease the yields on those, boost asset prices, get people to buy risk and feel better. The ECB and Japan took that one step further. In the case of the ECB, they bought high-grade corporate bonds. In the case of the Japanese Central Bank, they bought equity ETFs. One of the interesting things that started to pop up is there is some discussion that maybe the next downturn, the ECB needs to go look at buying equities as well.

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So from those two, which we've used, that are experimental policies, the next one is the potential next big thing, or MMT, which is Modern Monetary Theory. In short form, what the theory said is that the Federal Reserve Bank can credit the bank account of the Treasury Department with cash so the Treasury Department can pay for whatever fiscal policies it wants to undertake or its undertaking. The reason you can do that is, well, pretty much it’s all your currency. You're not having to borrow somebody else’s currency to do it, so just print the money to pay for the fiscal policy. The governor for that is inflation. It’s as long as inflation is low, you're okay, you can do that sort of activity.

The graph at the bottom is a look at the Personal Consumption expenditure, which is one of the things that the Federal Reserve Bank looks at to generate itself when looking inflation, and the red line represents 2%, which is their target. And for much of this period of time, they’ve been under their target. So the theory goes that, well, if ZIRP and Quantitative Easing have not produced inflation, then Modern Monetary Theory probably won’t, so why don’t we use that up until the time that we have inflation. If we don’t, then it’s a policy tool we can use. That’s a debate, in our view, that's going to be coming forward. We don’t pretend to know what the solution to that debate is, the outcome of it, or how it’s going to impact the markets. It just appears that the debate is going to come about the next time we have an economic downturn.

[Please reference slide 17] So thinking through that downturn and how it could be impacting credit markets and what we think we need to be aware of, this graph looks at S&P operating earnings, just estimates for those. The blue line at the top is for 2019 in total and the quarterly rates are the ones below.

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In the fall of last year, most people were estimating the S&P 500 earnings would grow at about 11-12%. Now that growth rate is down to a little over, a little less than 5; it's basically 4.75. The green line, which is the end of the current quarter, end of the current Quarter 1, originally was somewhere near 8%. It's not actually exposed to think that the operating earnings will have a negative growth of 3.6%.

So you're looking at this as a fairly dramatic change in earnings expectations. This is looking at just the S&P 500 but we figure this is a decent proxy for the economy.

[Please reference slide 18] So how is that potentially going to impact the bond market? We've used this graph before. There's two sets of bars on here for each ratings category, whether it's AAA all the way down to CCC. There's the actual ratings that are today, and there is what would those ratings be on an implied basis if the only criteria used was leverage, no other criteria was undertaken.

And looking at that BBB space or BAA space that we've highlighted—it's about 50% in actual today but if we just use leverage, it'd actually only be about 35% and those 15 percentage points would move into BB and single B.

If earnings are growing at a slower pace and if the economy is growing at a slower pace, then you look at some of the reasons of why these companies continue to be rated the way they are, which is oh, you'll be able to reduce debt, oh, your cash flows will improve, oh, you're going to become more efficient, you'll be able to pay down the debt, you'll grow into the debt. All these issues are sort of factored in to say okay, I'll use that as a reason to keep you BBB and not something else lower, would tend to go away and you're going to be left with the fact, well, if you can't reduce your debt, if your cash flows are decreasing, if your revenues are decreasing, there's going to be continued pressure to get downgrades away from BBB and they're going to tend to move into the BB and the single B space.

(00:20:05)

[Please reference slide 19] Another one we've used for a while and I wanted to revisit because it's like, well, who owns, who's a big owner of this corporate debt? And I really want to focus on the graph on the right-hand side. The one on the left just gives you some more detail but the key points are on the right-hand side. The black line is inverse, so it is the inverse of the yield-to-worst for the Barclays Aggregate Index. So if that line is rising, that means yields are declining, and then if the line is falling, yields are rising. And then the blue line is contributions to bond ETFs/bond mutual funds, and the green bars at the bottom, what's the total of those two outstanding.

What I find interesting about it is sort of coming out of the recession, and Barclays Aggregate Index yield-to-worst declines, money flows into bond mutual funds. Yield doesn't move, flows don't move; it just sort of stays static. Then yields rise, money comes into bond funds and ETFs. So whether it was rising or falling, money continued to come in.

The end result is, is over this last ten or so years, you've put almost $2 trillion into bond ETFs and mutual funds, and they now make up in total just shy of $5 trillion in assets.

[Please reference slide 20] So what do these funds tend to own? Where might their exposures lay and how are they allocated to credit as credit's become attractive or not attractive?

So the bars on each one of these graphs represents the total of their BBB exposure and those below BBB exposure, so it's just all in total. And the red line is an option-adjusted spread on the BBB corporate as defined by an index from Bank of America Merrill Lynch.

Looking at short-term bond funds pretty much from 2016 forward, their allocation to BBB and below has gone up. It's north of 25%. It hasn't made any difference whether that spread for that BBB corporate declined during that period of time or increased.

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On the upper right-hand side for the intermediate-term bond funds, they've held fairly steady at a little over 25% allocation. Regardless if the spread widened or narrowed, they just kept right where they were.

And then the bottom is the nontraditional bond fund category. There is some movement you see around as far as their allocation, but it's been in the 50-60% range.

So all three of these categories are heavily exposed to BBB and below and have consistently been heavily exposed to BBB and below, and don't seem to have changed much even though the data we've shown on previous pages tells you some underlying fundamentals about both the economy and credit quality have changed.

[Please reference slide 21] I'll wrap up with a few slides with a little more detail into the high yield market and the high-grade market, just to give people some context. So the numbers at the top, detail the point of this without going through it, was in the fourth quarter of 2008, the lower the credit rating, the worse the return. First quarter of 2019, the lower the credit rating, the better the return. That's all it is.

If you look at the graph at the bottom, and you look at the yield-to-worst for what is the Bloomberg Barclays BB High Yield Index, sort of take out energy and as Abhi likes to call it, let's look down the middle of the fairway for high yield, you're looking at a yield-to-worst today that equals that of what you saw a little over a year ago, sort of February of 2018. The spread, sort of similar. You're back to where you were in February of 2018.

[Please reference slide 21] Taking a minute to look at the investment grade market, this is over the last six months, looking at this, starting at the bottom of these lines and going forward, the dark blue line is the option-adjusted spread on mortgages. It's actually increased over the last six months.

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[Please reference slide 21] The next one up is the green line, which is an option-adjusted spread on ABS. It's back to about where it was in October.

If we look at the red line, which is investment grade corporate, it's still a little higher than it was in October but has significantly declined in the first quarter of this year.

And then finally, the top line is, the lighter blue line, is the option-adjusted spread on CMBS. It's still a little higher than it was in October of last year.

One thing to note is that looking at the corporate and the CMBS, they tend to be, they are longer-duration indices and that's why you see them having a higher spread. You've just, you've got to factor in that that duration is longer than if you look at a mortgage or an ABS index.

[Please reference slide 23] Then finally, just to focus in a minute on the 1-3 Year Agg, which is sort of the short end of the bond market and obviously where we've deployed our capital, and really the point here is to look at this as, if I look at the green line, which is the spread, the level you see it today looks, is lower than it was in the fall of last year and it reminds you of January of 2018. That's where it goes back to. The blue line, which is the yield-to-worst, is lower than it was in the fall of 2018, in fact it's as low as it's been since February of '18.

So with this as a backdrop of the market and such, I want to turn it over to Abhi, who will provide more detail on sort of how we've performed and how we deployed capital over the last quarter.

Abhijeet: **[Please reference slide 24]** We'll discuss returns and the portfolios of both FPA New Income and FPA Flexible Fixed Income.

(00:25:39)

[Please reference slide 25] We'll start with New Income otherwise referred to by its ticker, FPNIX, and we'll begin with performance.

The bottom right of this table shows that New Income's return before fees for the quarter was 1.27%.

The largest contributors to performance during the first quarter were agency mortgage pools. As we have been discussing for several quarters now, we've been trying to increase the portfolio's duration. All things being equal, we buy the longest bonds that we can find that we expect will have a positive total return over a 12-month period if we assume that yields rise by 100 bps during those 12 months. As I'll discuss in more detail, we've been gravitating towards agency mortgages. Tom discussed earlier the decline in interest rates this past quarter. That led to higher agency mortgage prices which, coupled with the increased mortgage exposure in the portfolio, led to the agency mortgages being the largest contributors to performance.

The second-largest contributors to performance were asset-backed securities (ABS) backed by prime or subprime auto loans. The returns on those bonds were mostly due to coupon payments and slightly higher prices. The third-largest contributors to performance were collateralized loan obligations (CLO). That return was driven mostly by coupon payments.

The only detractors from performance in the first quarter were corporate high-yield bonds, predominantly due to the decline in the price of an energy-related investment. That Company ultimately filed for bankruptcy during the quarter. This bankruptcy filing was expected and was not a surprise to us. We are engaged with the various stakeholders in this process and are actively involved in the situation. As such, we will reserve further comment for a future date.

[Please reference slide 26] Moving to investment activity during the quarter, it’s helpful to keep in mind the following two elements: Tom described how both the markets for investment grade bonds and high yield bonds have become more significantly more expensive. Tom also discussed inverted yield curves. These two market dynamics have impacted us in the following ways.

One, we define credit investments as investments rated BBB or lower. It has been tough for us to find credit investments that we feel are priced attractively on an absolute return basis. As a result, the exposure to credit has gone down as we have allowed our investments to mature or proactively sold investments that we felt were too expensive to continue owning. You can see the resulting decrease in credit exposure here on this slide with the blue line showing the credit exposure is approximately 6.6% of the portfolio, which is about 70 bps lower than it was at year-end.

[Please reference slide 27] Two, in high quality investments, defined as investments rated single-A or higher, we have been trying to add duration as I described earlier. But we are also aware of the compression in spreads so we have been trying to buy bonds at prices where we think we will have a positive return over twelve months if spreads widen to more normal levels. This is in addition to the 100 bps duration test I described earlier and has generally led us toward agency mortgages and vanilla asset-backed securities.

As a quick aside, we have had a few people ask us why we are trying to lengthen duration when the yield curve is inverted. In other words, why not own a shorter bond that yields more? We prefer longer duration bonds for two reasons.

First, the curve is inverted for risk-free securities. For securities that we buy that have spread, the curve is still upward sloping so we are still getting more yield with the longer duration bond versus the shorter-duration bond.

Second, historically, when the Treasury yield curve is inverted, rates have typically declined at some point thereafter.

If we were giving up yield to own longer duration bonds, which we are generally not, we would be sacrificing a few bps of yield in exchange for some greater total return potential in the event that rates to decline. That strikes us as a worthwhile tradeoff. It's important to note that, given our 100 bps duration test, "longer duration" for us means around a 3-year duration so, in the opposite scenario where rates increase, our longer duration bonds should be able to endure at least a 100 bps increase in yield and still provide a positive or breakeven twelve month total return. In summary, our approach tries to capture an attractive upside versus downside.

[Please reference slide 27] With that said, as of quarter end, the yield on our high quality investments is lower and the duration is a bit shorter. The yield is lower due to lower interest rates and the duration is slightly shorter for two reasons. First, though we were trying to add more duration to the portfolio, we could not add enough to offset the aging of the existing portfolio. Two, there was some contribution from lower interest rates making a handful of our bonds more likely to prepay which resulted in a shorter duration.

[Please reference slide 28] In total, the overall portfolio quality is higher than it has been which, as we step back and take the macro perspective, makes sense from an absolute return standpoint.

[Please reference slide 29] The bottom of this table shows the yield-to-worst and duration at the end of the quarter versus the end of the year.

Consistent with what I described, due to lower rates and lower credit exposure, the yield is lower than it was at the end of the year and the duration is a bit shorter.

[Please reference slide 30] These two pie charts show the New Income portfolio as of quarter end and year-end 2018. These pie charts are broken down by investment idea which is how we think about the portfolio. “Other” includes any idea that is less than 4% of the portfolio.

Overall, of the money that we invested during the quarter, approximately 80% was invested in agency residential mortgages, agency and non-agency commercial mortgages and asset-backed securities which is reflected in the larger slices for equipment ABS, prime auto ABS and mortgage pass-throughs. Some of the slices may look unchanged due to rounding.

(00:31:50)

[Please reference slide 31] This graph applies our duration stress test to the entire portfolio. As an example, "100" on the x-axis shows the expected portfolio total return over 12 months before fees if yields increased by 100 bps. The different colored bars show the results for the portfolio as of Q1 2019 in blue, Q1 2018 in green and Q1 2017 in red. Because of lower rates, the returns in the rising rate scenarios on the right are not as high as they were last year but the portfolio is still expected to have a positive return if yields rise by 200 bps, shown on the far right. That means that the portfolio should still have cushion against a greater than 200 bps increase in yields which could happen through a combination of rising interest rates and spreads.

On the far left, in the declining yield scenarios, the portfolio has maintained or improved its potential performance which speaks to the benefit of adding duration in the manner that we have.

[Please reference slide 34] Moving on to Flexible Fixed Income, or FPFIX, all of the market commentary that we just covered applies to Flexible Fixed Income. In addition, as Tom noted earlier, Flexible Fixed Income ended the quarter with approximately 25% cash and equivalents. As we go through these slides, it is helpful to remember that since we started the quarter with 100% cash and ended the quarter with 25% cash, that means that the portfolio spent much of the quarter in cash.

This table shows the Flexible Fixed Income portfolio metrics as of March 31. The portfolio yield is 2.9% and the duration is 1.9 yrs. For reference, if you strip out the cash, the portfolio yield would be a little over 3% and the duration would be around 2.6 yrs.

(00:33:56)

[Please reference slide 35] This pie chart shows the Flexible Fixed Income portfolio broken down by investment idea. As a reminder, Flexible Fixed Income has more room to own credit, which we define as an investments rated BBB or lower. As we discussed today, credit markets are expensive. Just because Flexible Fixed Income can own credit doesn't mean it will own credit; rather, it will be opportunistic. Given market conditions, while we continue to comb for attractive credit ideas, we have thus far found that high quality, plain vanilla bonds are – on the margin – the best use of capital. That is shown here with almost 80% of the invested portfolio in agency mortgages, plain vanilla structured product and Treasuries.

[Please reference slide 36] Approximately 6.2% of the portfolio is invested in credit, defined as an investment rated BBB or lower.

[Please reference slide 37] This table shows that Flexible Fixed Income returned 1.14% bps before fees during the quarter. Excluding cash and equivalents, the largest contributors to performance during the first quarter were agency mortgage pools due to price appreciation caused by lower rates.

The second- and third-largest contributors to performance were asset-backed securities (ABS) backed by auto loans (prime or subprime loans) and ABS backed by equipment, respectively. For both, the return was due to coupon payments and higher prices caused by lower interest rates.

The only detractors from performance in the first quarter were corporate high-yield bonds and bank debt due to the same energy-related investment I mentioned earlier.

And with that, we can move on to Q&A.

Kristina: **[Please reference slide 38]** Thank you, Abhi, and thank you to those of you who have submitted questions in advance. We'll take those first and then we will address any questions that might come in during the presentation.

First question, how do you currently view subprime auto ABS? How will it fare as we round out this credit cycle?

(00:36:00)

Abhijeet: So as it relates to subprime auto ABS, first I'll just note that our exposure to those bonds is about 8% of the portfolio and has been shrinking over the past several quarters. I can't remember the last time we bought any subprime auto ABS bonds and if we did, it was not meaningful in any way.

So with that said, if we were to have a credit cycle, I think one should certainly expect that losses on subprime auto loans will increase. The pertinent question for us is whether that sort of increase in loan losses has any material impact on the bonds that we own. I do not expect during a credit cycle that any increase in losses would have a material impact on the bonds that we own. I just want to be clear; I am not speaking for the bonds that are not in our portfolio, which, as a reminder, we own very highly rated bonds that are at the top of the capital structure in the securitizations, so these bonds that we own are typically the first to get paid, and again, as a reminder, whenever we analyze our investments in subprime auto ABS, we are running them to what we think are very draconian loss scenarios, which is why I say I don't expect any impact on the bonds that we own. That does not mean that there could not be an impact on some of these lower-rated BB or BBB bonds that are circulating out there in the market.

For us, any investment can make sense at the appropriate price. We have not been investing in these bonds for quite some time just because the price has not made sense, but if they ever got cheap enough then it's something that we will reconsider.

Kristina: Thank you, and another one on ABS. Overall, where on the ABS side are you finding the most value for risk?

Abhijeet: So I think we answered this during the webcast but just to be clear, what we've generally seen is that everything around the world is very expensive. One of the dynamics that we've seen in this market is that you're starting to see a number of these what I kind of refer to as 'out of the woodwork' types of issuers or asset classes showing up seeking financing, which to me is emblematic of a market that's gotten kind of hot and frothy.

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So to answer the question, the areas of ABS that have made the most sense to us, as I referenced during the commentary, are generally more of the plain vanilla bonds, bonds that have large market sizes outstanding, bonds that have been out in the market for many, many, many, many years, that people understand really well, they have a very long and established history, a very established set of issuers that themselves have a long history of being involved in this space and servicing these sorts of assets.

I will be the first to admit that the yields at which we are able to buy these bonds are not necessarily the most attractive yields that we've ever seen. But as I mentioned before, we are buying them at levels where we think we're insulated against any sort of meaningful market selloff so that we would still expect to have a positive mark-to-market return over 12 months.

But frankly there's not, there's really not a lot of attractive ABS out there.

Kristina: And another one that we might have indirectly answered but it was asked so we want to make sure to go over it. Will FPNIX and FPFIX be pretty similar until some opportune market dislocation?

Abhijeet: Yes. So, and there's a bit of nuance to the answer. So the general answer is yes. Credit exposure-wise, you might see a little bit of difference between the two portfolios. Flexible Fixed Income might have a little bit more in credit just because it has the capacity to own more in credit, so the opportunity cost of the incremental credit investments is lower. And also, as a reminder, Flexible Fixed Income has a longer positive return horizon that we're trying to manage to. So there is more capacity to take on drawdown risk versus what is possible in New Income.

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The other area where you will see some differences, and I kind of referenced this during the commentary, is that the two portfolios in the high-quality realm are making very similar marginal investments, which is to say that the high-quality bonds that we are incrementally adding to each portfolio are generally in the area of three years in terms of duration.

Having said that, FPA New Income is obviously deploying capital off of a larger AUM that has a much larger base of assets that are in there that are aging all the time, and Flexible Fixed Income is starting from scratch. And so that's why I mentioned that the Flexible Fixed Income duration is significantly higher than it is for FPA New Income after you strip out the cash, because Flexible Fixed Income is getting some benefit from the smaller AUM and the fact that we are starting from scratch.

Kristina: And next question. Which fixed income asset classes cause you greatest concern, perhaps due to valuations or risks?

Abhijeet: If I had to name the item at the top of the list, it's probably high yield and bank debt, just because on an absolute return basis, the prices you can get today I think are very expensive and that's before—that's even before you take into account the risk that you're actually buying. And so we've spoken about this in the past but relative to the return that you can get, the quality of high yield and bank debt today is, it’s ugly. I don’t think there's any two ways about that. It’s ugly in the sense that the leverage levels are higher, the structures are more top-loaded, meaning that there's much more of the capital structure is in bank debt versus bonds, which puts the subordinated high yield investment to more risk.

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And then finally, the nature of the bond and loan documents themselves have just gotten way too issuer-friendly and they are not at all favorable to borrowers—or sorry, to the lenders. So all in all, the prices just, they don’t really pay you for the risk that you're taking on.

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Kristina: Thank you. I believe this takes care of the questions we had for today. Thank you for listening to FPA New Income and FPA Flexible Fixed Income First Quarter 2019 Webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: Thank you for your participation in today’s webcast. We invite you, your colleagues and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website within a few days at FPA.com. We urge you to visit the website for additional information on the Fund such as complete portfolio holdings, historical returns and after-tax returns.

Following today's webcast, you will have the opportunity to provide your feedback and submit any comments or suggestions. We encourage you to complete this portion of the webcast. We know your time is valuable and we do appreciate and review all of your comments.

Please visit FPA.com for future webcast information including replays. We will post the date and time of the prospective calls towards the end of each current quarter and expect the calls to be held three to four weeks following each quarter end.

If you did not receive an invitation via email for today's webcast and would like to receive them, please email us at crm@fpa.com.

We hope that our quarterly commentaries, webcasts and special commentaries will continue to keep you appropriately informed on the strategy.

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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 based on market and other conditions. These views may differ from other portfolio managers and analysts of the firm as a whole and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

Any mention of individual securities or sectors should not be construed as a recommendation to purchase or sell such securities.

Past performance is not a guarantee of future results. Any statistics have been obtained from sources believed to be reliable, but the accuracy and completeness cannot be guaranteed. You should consider **[each]** Fund's investment objective, risks, changes and expenses carefully before you invest.

The prospectus **[for each Fund]** details the **[relevant]** Fund's objectives and policy, changes and the matters of interest to the prospective investor. Please read the prospectus carefully before investing.

The prospectus may be obtained by visiting the website at www.fpa.com, by email at crm@fpa.com, tollfree by calling 1-800-982-4372, or by contacting the Fund**[s]** in writing.

FPA Funds are offered by UMB Distribution Services, LLC.

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

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[END FILE]

FPNIX or FPFIX are not authorized for distribution unless preceded or accompanied by a current prospectus.

The current prospectus for FPNIX can be accessed at: https://fpa.com/docs/default-source/funds/fpa-new-income/literature/fpa-new-income-prospectus_01-31-19_web-ready.pdf?sfvrsn=4.

The current prospectus for FPFIX can be accessed at: https://fpa.com/docs/default-source/funds/fpa-flexible-fixed-income-fund/literature/fpa-flexible-fixed-income-fund-prospectus_04-30-19_web-ready.pdf?sfvrsn=18.

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