Value Investor Insight: Pillars of Strength

(FPA Queens Road Small Cap Value Fund)

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

Trailing Performance (%)

As of March 31, 2025	Inception	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTD
FPA Queens Road Small Cap Value	9.24	7.62	8.72	8.09	15.30	5.55	4.47	-2.51	-2.51
Russell 2000 Value	7.71	6.80	8.19	6.07	15.31	0.05	-3.12	-7.74	-7.74

Past performance is no guarantee, nor is it indicative, of future results. Current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. Current month-end performance data, which may be lower or higher than the performance data quoted, may be obtained at fpa.com or by calling toll-free, 1-800-982-4372. The Fund's Total Annual Operating Expenses are 0.99% (Investor Class), 0.91% (Advisor Class), and 0.80% (Institutional Class).

The FPA Queens Road Small Cap Value Fund ("Fund") commenced operations on June 13, 2002 (Inception date). Fund performance shown is for the Investor Class (QRSVX). Periods greater than one year are annualized. Fund performance is shown net of all fees and expenses and includes reinvestment of all distributions. Fund performance does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares, which would lower these figures. An investor cannot invest directly in an index.

Prior to November 1, 2020, the performance shown reflects the historical performance of the Fund when Bragg Financial Advisors, Inc. ("BFA") served as investment adviser of the Fund.

From inception of the Fund to December 31, 2004, BFA and its affiliates voluntarily absorbed certain expenses of the Fund and voluntarily waived its management fee. Had BFA not done this, returns would have been lower during that period. Effective January 1, 2005 through October 31, 2020, BFA charged a single unitary management fee and contractually agreed to pay all operating expenses of the Fund except for brokerage, taxes, interest, litigation expenses, and other extraordinary expenses.

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ValueInvestor INSIGHT
The Leading Authority on Value Investing
May 31, 2025

Pillars of Strength

Steven Scruggs and Benjamin Mellman of Bragg Financial Advisors explain how their strategy grounds them during times of market dislocation, why "boring" ideas are often the best bet, how they've learned to let their winners run, and why they see mispriced value today in RLI Corp., Advance Auto Parts, Vishay Intertechnology, TD Synnex and UGI Corp.

INVESTOR INSIGHT

Steven Scruggs
Bragg Financial Advisors

Investment Focus: Seeks advantaged business franchises that appear cheap relative to the potential growth and durability of their prospective long-term earnings.

Many thoughts came to mind for Steve Scruggs upon hearing Warren Buffett is turning over the reins at Berkshire Hathaway, but one in particular stood out: "Often when I talk about how we invest I feel like people want more excitement or 'sizzle,' but Buffett was a perfect example of how you don't need that," he says. "All you need is to have a discipline that makes sense, apply it consistently over and over again and stay out of your own way."

Scruggs has done exactly that in running what is now the FPA Queens Road Small Cap Value Fund. Since its inception in 2002 it has earned a net annualized 9.1%, vs. 7.5% for the Russell 2000 Value Index. Among areas where he's finding mispriced value today: insurance, auto parts, discrete semiconductors, IT distribution and utilities.

Describe what you call the four pillars of your investment strategy and how they drive your decision-making.

Steven Scruggs: The four criteria we focus on in all our investments – industry, management, valuation and balance sheet – are not unique, but we think ground us on what's important regardless of whatever else the market might be worried about at the moment. Are the industries the companies are in stable, growing and not overly competitive? Does management have a clear strategy focused on delivering value to customers and on the fundamentals of long-term shareholder value creation? Is there a significant margin of safety between our estimate of intrinsic value and the current share price? Is the balance sheet healthy, protecting the company in times of uncertainty?

Having these four pillars be positive in one company at the same time is rare and tends to focus us on investments that are simple and straightforward. Companies scoring high across the criteria tend to stay out of trouble. They don't overextend the balance sheet to build empires and they don't take on contingent liabilities. Management focuses on a core business that has a long history of demonstrated results, and the core business is fundamentally sound and we don't need to assume the future will be very different than the past. We aim to hit singles and doubles and will wait until the four pillars align, which we think puts the odds in our favor.

Given the ubiquity of information available to investors, the behavioral aspect of what we do is more and more important. We think there's a natural tendency for most investors to seek complexity, due to overconfidence or just naturally wanting to do something interesting and novel. Our argument is that boring ideas are perfectly fine and can have a much higher probability of success.

Have the relative weightings you put on each of your four pillars changed at all over time?

SS: When we've analyzed our mistakes over the years we've found the biggest problems have been in value traps that appeared statistically very cheap. These have had less to do with the management, the valuation or the balance sheet and much more to do with industries that were shrinking and/or competitively challenged. At the margin today we are willing to pay slightly higher premiums for companies in industries with above-average economics and stable, if not necessarily exciting, growth prospects.

Benjamin Mellman: We're a small-cap fund – our cutoff at purchase is the largest market-cap in the Russell 2000 Value Index, generally around $7 billion – but we're looking for long-term compounders. That generally requires a favorable industry backdrop, but in our companies it is also usually a function of well-managed businesses that keep things simple. They focus on doing the same thing over and over again and getting better every day. They invest in what they do well and ruthlessly cut out the rest. They balance optimism and investment in growth with an eye on the proverbial rainy day. We generally expect our small caps to be mid caps or large caps one day and hope to be along for the ride as long as possible.

You've described Graco [GGG], which makes fluid-handling equipment, as a prototypical investment. Why does it fit the profile of what you look for?

SS: This is one of the highest-quality businesses we own, which we first bought at the fund's inception in 2002. It's about as boring as you can get – making pumps, sprayers, applicators and valves used in industrial, repair and construction settings – but they dominate the markets they are in. They've continued to innovate with new products, but the business isn't markedly different today than it was twenty years ago. Then it was growing at GDP-plus, with high margins, a return on invested capital in the low-to-mid-20s and no debt, and the financial metrics are very similar today.

The culture is focused on understanding what customers need and innovating to deliver it. They take out expenses every year to continue to profitably deliver customer value. As an example of how they think, when components were difficult to procure during Covid, rather than sacrifice on the quality of components they used, they told customers they would rather not sell to them than sell any equipment that didn't meet their brand standards. That's why they have the brand loyalty they do.

Graco is an example where a business doesn't have to be sexy or disruptive to generate significant long-term value. It's just a really well managed company with a good business model operating in a solid industry. As long as we're not overpaying for that, we'll take that any day.

How do you hold on as the stock price and market value go up and up?

SS: Our charter allows us to hold a small percentage of the portfolio in stocks that have grown beyond small caps, as Graco has. We have of course trimmed our position in it along the way as it became oversized or the stock became expensive – and, by the way, added at times during market drawdowns – but in general we've tried to get better in cases like this at recognizing true compounders and being willing to hold on to them. One process change we've made to that end is to not rely so much on a point price target to drive buying and selling decisions, but to think more in terms of a "range of reasonableness" when it comes to valuation. That range has continued to shift up for Graco in a way that has allowed us to hold it as it's compounded so nicely. The stock is at the high end of the range today so it's only a 1.5% position, but this is one of the best companies we own and we're happy to still own it. [*Note:* With a market cap today of just over $14 billion, GGG shares at a recent $84.65 trade at 28.3x consensus forward earnings.]

ON COMPLEXITY:

Our argument is that boring ideas are perfectly fine and can have a much higher probability of success.

Our portfolio turnover generally reflects our wanting to own long-term compounders. It's always a function of what the market's offering, but our annual turnover over the last five years has averaged approximately 16%. If we're doing our job, the turnover is much less around exiting positions and more just a function of trimming winners and adding to positions that get cheaper.

The last time we spoke [*VII*, May 29, 2020] was also a turbulent market environment. How would you describe your modus operandi in such environments?

SS: The focus on our pillars and on taking a three to five-year view is always the same and helps us take the emotion out of it, which is very important in these types of markets. With the trade issues, we're on a company-by-company basis looking at the short and long-term ramifications and often finding the long-term ramifications less important or manageable. When that's been the case and share prices fell more sharply than we believed was warranted, we put incremental money to work. We actually have a pretty good record of investing into dislocations like this – focusing on the long-term fundamentals makes it easier to make good decisions in disruptive times.

Did you have cash on hand to put to work?

SS: We've changed our strategy somewhat around cash – now limiting it to no more than 10% of the portfolio – but we still believe in the optionality value of holding some cash for times like last month. We had been lightening up on some of our best-performing positions that had gotten stretched on the valuation front – including Deckers Outdoor [DECK], InterDigital [IDCC] and Sprouts Farmers Market [SFM] – so had a decent amount of dry powder to reallocate.

You added a new position in REV Group [REVG] in this year's first quarter. What attracted your attention in it?

BM: The company's main franchises are in manufacturing fire trucks and ambulances in the U.S., consolidated industries with generally rational competition. Here our main interest is in the fire-truck business, which we know from our ownership in OskKosh Corp. [OSK], whose Pierce Manufacturing division is another big player in that market. The basic thesis is that big backlogs in fire trucks for the major players suggest built-in and durable revenue and margin growth. We think the business is structurally improving in a way that isn't reflected in REV Group's current share price. [*Note*: After a strong run up, at a recent price of $37.50 REVG shares currently trade at 15x estimated forward earnings.]

You set aside a portion of your portfolio for what you call "opportunistic value" ideas. How do those differ from your more typical holdings?

SS: These tend to be lower-quality businesses that have identifiable near-term problems and fall short of our typical company in terms of earnings consistency and returns on capital. Here the opportunity is more around price, where we think the valuation more than compensates us for the shortcomings in the business. These can be good investments too, so we want to take advantage of the opportunities as they arise. But in aggregate, we don't want more than 15% of the portfolio in these types of names and we generally hold them at smaller position sizes.

Rent-to-own company Upbound [UPBD] is an example of such an idea you added to significantly in the first quarter. Explain briefly why.

SS: The company through its Rent-A-Center stores and Acima technology platform essentially sells homegoods through a lease-to-own model to less-credit-worthy customers. This historically has been a pretty good business and Upbound is a leading and experienced player, but the stock has been under pressure due to concerns over increased potential federal regulation and, more recently, over the economic health of the company's target demographic. We generally think the potential for negative regulatory change has lessened with the change in administration, and the company's record would indicate it is fairly resilient through challenging economies. That's not to say everything looks great, just that we think we're being compensated for the risks here with the stock [at a recent price of $22.90] trading at just over 5x consensus forward earnings.

Describe how in general you approach valuation.

SS: We typically use discounted-cash-flow models where the primary inputs are revenue growth, normalized operating margin, normalized working capital adjustments and the effective tax rate. (We use variations of the model when analyzing financials and utilities.) We discount future cash flows back to the present using individual-company discount rates based on our assessment of the riskiness of the business model and balance sheet. Our discount rates tend to be between 8% and 12%, with higher risks requiring higher expected returns.

Describe your broader investment case today for insurance company RLI Corp. [RLI], a long-time holding.

SS: This is a high-quality specialty insurer we've owned since 2003. Their expertise is in developing niche, arcane lines of business the biggest players ignore, where RLI can become a leading player and pick and choose only the risks they believe they can underwrite at high profitability. They do things like school-bus insurance, insurance for tour operators, and liability insurance for home-based businesses. They'll write homeowners insurance, but only on two islands in Hawaii.

The company's culture is both highly entrepreneurial and stresses conservative underwriting. Managers are highly motivated to seek out and build new lines of business, but the bulk of their incentive compensation is tied to increasing tan-

INVESTMENT SNAPSHOT

RLI Corp.
(NYSE: RLI)

Business: Specialty insurer serving commercial and personal-lines customers in niche property, casualty and surety markets mostly ignored by the biggest industry players.

Share Information (@5/30/25):

Price	**76.87**
52-Week Range	68.50 – 91.14
Dividend Yield	3.4%
Market Cap	$7.05 billion

Financials (TTM):

Revenue	$1.73 billion
Operating Profit Margin	20.7%
Net Profit Margin	16.2%

Valuation Metrics
(@5/30/25):

	RLI	S&P 500
P/E (TTM)	25.4	23.7
Forward P/E (Est.)	25.0	22.1

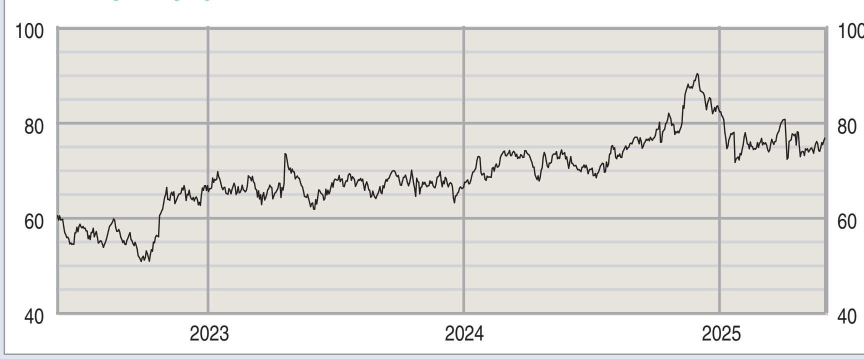
Largest Institutional Owners
(@3/31/25 or latest filing):

Company	% Owned
Vanguard Group	9.8%
State Street	9.5%
BlackRock	8.2%
Kayne Anderson Rudnick	5.7%
Neuberger Berman Inv Adv	3.0%

Short Interest (as of 5/15/25):

Shares Short/Float	1.9%

RLI PRICE HISTORY



THE BOTTOM LINE

The company is a unique specialty insurer with a culture that is both entrepreneurial and stresses disciplined underwriting, says Steve Scruggs. He considers the stock today an attractively priced value compounder, trading at a discount to his current estimate of intrinsic value while generating estimated long-term returns on tangible equity of 17-18%.

Sources: S&P Capital IQ, company reports, other publicly available information

gible book value, not just premium revenues. That's allowed them to attract and keep the best-performing employees, to generate returns on tangible equity in the high-teens, and while growing to deliver an almost unprecedented long-term underwriting record, with average combined ratios over the last decade of 82-83%. They're A+ rated as a small-cap multiline insurer, which is highly unusual, with an overcapitalized balance sheet that always has surplus reserves.

To elaborate on the culture here, the long-term bonus pool is based on returns above the cost of capital. But there's a mechanism to pull back money from the long-term compensation if you wrote cheap business that appeared profitable but has adverse reserve developments down the road. That mindset means RLI generally doesn't fall into the trap many insurers do in writing unprofitable business for the sake of growth – when the pricing isn't there, they'll pull back and wait until it is.

Is there anything in particular currently weighing on RLI's stock, now trading at around $76.85?

SS: There has been some concern over inflation increasing property insurance payouts, but for the most part this is an example of what we think is a value compounder that we're happy to own even if it's in the higher end of our range of reasonableness on valuation.

Our valuation model – which assumes roughly 4% annual revenue growth, a long-term return on tangible equity of 17-18% and a 10% discount rate – yields an intrinsic-value estimate of about $82 per share. The stock doesn't currently trade at a steep discount to that, but given the growth in tangible book value we expect going forward that should still translate into an attractive shareholder return from today's price.

Turning to an "opportunistic value" idea, describe what's behind your interest today in seemingly perpetual turnaround candidate Advance Auto Parts [AAP].

SS: This is a name we added to the portfolio in the third quarter of last year. The company is #3 in the U.S. behind AutoZone and O'Reilly Automotive in aftermarket automotive parts distribution and retail, serving both do-it-yourself consumers and professional repair shops. It is, as you say, in the middle of a major turnaround meant to close the giant gap between its operating and financial performance and that of its two main competitors. We typically avoid big turnarounds, but we think the expectations here are low enough and the potential upside high enough that it qualifies as an opportunistic-value idea.

We think Shane O'Kelly, who took over as CEO in August 2023 from HD Supply, has done a great job both in defining what is wrong at the company and in setting a course to fix it. He's been primarily focused on the company's outmoded and inefficient logistics and distribution operations and he's brought in a number of new executives and board members with the specific expertise in areas where he thought the company was lacking. There's a new chief technology officer from Dollar General, a new head of merchandising from Target and a new chief supply officer from Lowe's. One of the new directors is a

INVESTMENT SNAPSHOT

Advance Auto Parts
(NYSE: AAP)

Business: Distribution and retail sale of automotive aftermarket parts primarily in the United States, serving both do-it-yourself consumers and professional repair shops.

Share Information (@5/30/25):

Price	**47.93**
52-Week Range	28.89 – 71.09
Dividend Yield	2.1%
Market Cap	$2.87 billion

Financials (TTM):

Revenue	$8.91 billion
Operating Profit Margin	(-0.4%)
Net Profit Margin	(-4.0%)

Valuation Metrics
(@5/30/25):

	AAP	S&P 500
P/E (TTM)	n/a	23.7
Forward P/E (Est.)	18.7	22.1

Largest Institutional Owners
(@3/31/25 or latest filing):

Company	% Owned
BlackRock	11.8%
T. Rowe Price	11.1%
Vanguard Group	10.9%
Pzena Inv Mgmt	7.2%
Fuller & Thaler Asset Mgmt	5.9%

Short Interest (as of 5/15/25):

Shares Short/Float	18.3%

AAP PRICE HISTORY

THE BOTTOM LINE

While the company has a reputation as a perpetual industry laggard, Steve Scruggs believes the turnaround effort under new CEO Shane O'Kelly since mid-2023 is well conceived and should drive improved performance. Even after a spike in the share price earlier this month, it would have to increase 38% to hit his current intrinsic-value estimate.

Sources: S&P Capital IQ, company reports, other publicly available information

20-year veteran of O'Reilly's and another ran U.S. supply chain at Walmart.

Among key initiatives announced so far, they're closing 700 underperforming stores. They're remaking their West Coast distribution operation, moving away from servicing everything from two big distribution centers to setting up smaller regional facilities and shifting some of the warehousing to large hub stores. They're also adding a number of new stores, expanding in markets where they already have high market shares so they can more efficiently and effectively keep the right products fully stocked and available. To shore up the balance sheet, they sold their Worldpac B2B distribution subsidiary for $1.5 billion to Carlyle.

After reporting less bad than expected results on May 22nd, the company's stock rose 57%. At today's $48 price is the upside here still attractive to you?

SS: We still think the stock is attractive at the current price. As evidenced by the previous track record, what management is trying to do here is very difficult and the plan in place will take a long time to execute and result in tangible improvement. As it plays out there will be good news and bad news and the market will probably overreact to each.

The progress made so far does make us more confident they can pull this off. We have updated our estimate of intrinsic value, which assumes annual revenue growth of about 3%, a normalized operating margin of 7.5% or so – up from operating breakeven today – and a high discount rate of 14%. That took our intrinsic value estimate up from just over $60 per share prior to the earnings report to closer to $66 today. If operating margins ultimately move anywhere close to the levels of AutoZone and O'Reilly, this could very well go from being an opportunistic buy to a long-term compounder.

Vishay Intertechnology [VSH] has for a while been on your quarterly detractor lists with respect for performance. Why are you optimistic that turns around?

SS: Vishay makes a wide array of discrete semiconductors and passive electronic components, including diodes, rectifiers, sensors, inductors and capacitors. I think of it as making the equivalent of ball bearings for electronic devices, very low cost components that have a high cost of failure. In its markets it's typically one of the top three scale players.

Vishay is also in the early innings of a pretty ambitious strategic reset. At its April 2024 Investor Day, new management announced aggressive targets for investment and profitability tied to an effort to move from what had been a notably staid and overly conservative approach to one that was more customer and growth oriented. That involved listening better to customers about where they needed Vishay to be investing and then putting real investment spending behind those key initiatives. Concurrent with that, they've pushed decision-making down in the organization and rolled out a new long-term incentive plan that better aligns compensation for the top 1,000 employees with company growth and profitability objectives.

While the electronic-components business can be cyclical and has for the past couple of years been working off Covid-

INVESTMENT SNAPSHOT

Vishay Intertechnology
(NYSE: VSH)

Business: Manufacturer of a wide array of discrete semiconductors and passive electronic components, including diodes, rectifiers, sensors, inductors and capacitors.

Share Information (@5/30/25):

Price	**14.07**
52-Week Range	10.35 – 24.68
Dividend Yield	2.8%
Market Cap	$1.91 billion

Financials (TTM):

Revenue	$2.91 billion
Operating Profit Margin	2.2%
Net Profit Margin	(-2.3%)

Valuation Metrics
(@5/30/25):

	VSH	S&P 500
P/E (TTM)	n/a	23.7
Forward P/E (Est.)	91.8	22.1

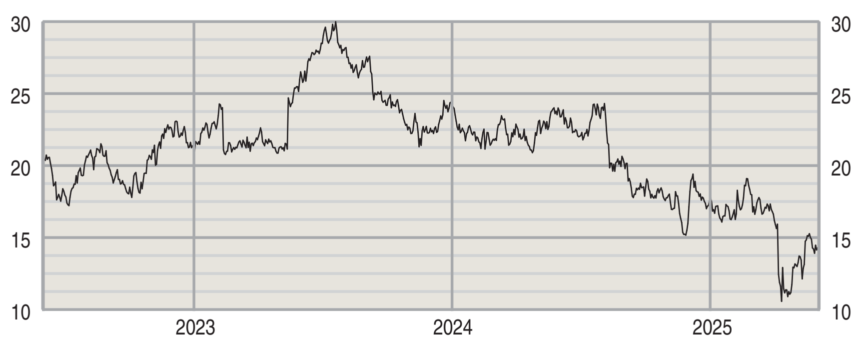
Largest Institutional Owners
(@3/31/25 or latest filing):

Company	% Owned
BlackRock	13.5%
Vanguard Group	12.1%
Norges Bank Inv Mgmt	6.3%
Dimensional Fund Adv	5.6%
Invesco	4.1%

Short Interest (as of 5/15/25):

Shares Short/Float	7.8%

VSH PRICE HISTORY



THE BOTTOM LINE

The market has yet to buy into it, but Steve Scruggs expects the company's strategic and cultural reset meant to better capitalize on the underlying secular growth in its end markets to succeed. If it gets "anywhere near" management's profit targets, he sees considerable upside in the stock beyond his $18-per-share estimate of intrinsic value.

Sources: S&P Capital IQ, company reports, other publicly available information

related overstocking, the underlying long-term growth drivers from things like electronic vehicles, data centers and increased electrification are positive for Vishay. It provides the nuts and bolts supporting those trends and has also done a decent job in building out its product line in higher-margin componentry where customers can value quality over price. If through their cultural reset they're successful in building closer and deeper relationships with clients, that should enhance their ability to both identify and capitalize on higher-added-value product opportunities.

How do you see the company's evolution translating into upside for the stock, now trading at just over $14?

SS: The current financials have been significantly impacted by both the cycle and the stepped-up investment spending on future growth. For our model we think we're being conservative in assuming 5% annual top-line growth over the next five years, falling to 3% thereafter. We expect normalized operating margins of around 9%, a long way from management's target of 20% or the nearly 18% the company earned in 2022. Using a 12% discount rate, that gives us an intrinsic value estimate of $18 per share. If they get anywhere close to their profitability targets, there would be plenty of upside beyond that.

Is the balance sheet at all a concern here?

SS: Vishay has historically held a net cash position but has taken on some debt to invest in growth capex. There's currently about $400 million of net debt on the balance sheet, which is less than 1.3x our estimate of normal operating income. We think they've got more than enough financial flexibility to see the strategic changes through, even with some wobbles in the economy.

Information technology distributor TD Synnex [SNX] is one of your holdings that has gone from a small cap to a mid cap. What do you think the market is missing in it today?

SS: This is the world's largest distributor of IT hardware, software and solutions, with $59 billion in revenue in its latest fiscal year. The company offers around 200,000 products to more than 150,000 customers worldwide. It and Ingram Micro [INGM] are the two primary pure-play distributors in the U.S. and both have done a commendable job of providing an ever-expanding list of higher-value services, software and cloud offerings as the information-technology business has grown and evolved. That's allowed TD Synnex to grow revenues and profits faster than the GDP-plus rate of the industry over time.

There are two ongoing company initiatives we believe have particular promise. The first is what TD Synnex calls MSP Evolve, which packages a range of products and services directed at Managed Service Providers. These firms fill an increasingly important role in providing outsourced IT infrastructure and services to companies without the size or inclination to keep up with rapidly changing technology around hardware, network management, cybersecurity, artificial intelligence, data backup and day-to-day maintenance and support. In addition to providing access to TD Synnex's core product platform, MSP Evolve

INVESTMENT SNAPSHOT

TD Synnex
(NYSE: SNX)

Business: Global distribution of information technology, including hardware, software and related services; offers some 200,000 products to over 150,000 global customers.

Share Information (@5/30/25):

Price	**121.34**
52-Week Range	92.23 – 145.10
Dividend Yield	1.4%
Market Cap	$10.18 billion

Financials (TTM):

Revenue	$59.01 billion
Operating Profit Margin	2.1%
Net Profit Margin	1.2%

Valuation Metrics
(@5/30/25):

	SNX	S&P 500
P/E (TTM)	15.2	23.7
Forward P/E (Est.)	9.9	22.1

Largest Institutional Owners
(@3/31/25 or latest filing):

Company	% Owned
Fidelity Mgmt & Research	11.1%
Vanguard Group	8.9%
BlackRock	8.4%
MITAC Holdings	5.7%
Brave Warrior Adv	4.9%

Short Interest (as of 5/15/25):

Shares Short/Float	5.1%

SNX PRICE HISTORY

THE BOTTOM LINE

Already a giant distributor of information technology hardware and software, the company's initiatives to broaden its range of higher-value-added service offerings also show significant promise, says Steve Scruggs. Discounting his projected future cash flows back at a 10% annual rate, he estimates today's per-share intrinsic value at $147.

Sources: S&P Capital IQ, company reports, other publicly available information

offers a number of training, marketing, financial, security and business management services and software tailored specifically to helping MSPs build and manage their businesses.

Another interesting part of the business is called Hyve Solutions, which helps customers design and manufacture hyperscale data centers that are customized to their unique specifications. Hyve doesn't own and operate the centers, but plays a key role in their development and construction. Playing that kind of role well certainly positions TD Synnex as a valued service provider and should help it continue to deepen and broaden its customer relationships.

Are there tariff-related issues to be concerned about here?

SS: The company does rely heavily on imported products and does a lot of business in countries like the U.S. where tariffs may be more likely to increase. Over our three to five-year horizon we generally expect that the tariff issues will subside and/or that the company can adapt its supply chain and its pricing to minimize any negative financial impacts. It would be an issue if high tariffs become a more fundamental long-term problem, but that to us is still a relatively low-probability potential outcome.

How are you looking at valuation from today's share price of around $121.30?

SS: The stock was hit earlier this year, we think less due to tariff concerns and more as a result of missed targets in the Hyve Solutions business. When we look into why Hyve missed their numbers, it appears primarily to be a timing issue rather than any fundamental weakness in that business.

We assume annual revenue growth of 6% in the first five years and only 3% – materially lower than the historical industry level – beyond five years. We expect some uptick in operating margins, to a normalized level of 2.8%, from a mix shift to somewhat higher-margin businesses. The discount rate, or expected return, we build in is 10%. With all that, the stock currently trades at what we consider an attractive discount to our intrinsic value estimate of $147 per share.

You hold up UGI Corp. [UGI] as a good example of the type of boring business you often like. Explain why that's the case.

SS: We generally love non-interesting companies. No one gets excited about them but they often have solid, stable businesses that can crank out consistent and profitable earnings growth over time.

UGI operates in four primary businesses. The two biggest, each accounting for about 30% of total revenues, distribute propane to residential and commercial customers – in Europe through the UGI International division and in the U.S. under the Amerigas brand name. Another roughly 20% of sales come from the company's gas and electric utility serving customers in Western Pennsylvania and West Virginia. The last business, also generating around 20% of total sales, operates primarily natural-gas pipelines and storage and processing facilities in the U.S., mostly in the Marcellus and Utica shale basins.

INVESTMENT SNAPSHOT

UGI Corp.
(NYSE: UGI)

Business: Primary businesses include residential and commercial propane distribution, natural gas transmission and distribution, and a electric utility based in Pennsylvania.

Share Information (@5/30/25):

Price	**36.06**
52-Week Range	22.01 – 36.35
Dividend Yield	4.2%
Market Cap	$7.73 billion

Financials (TTM):

Revenue	$7.32 billion
Operating Profit Margin	17.0%
Net Profit Margin	7.3%

Valuation Metrics
(@5/30/25):

	UGI	S&P 500
P/E (TTM)	14.6	23.7
Forward P/E (Est.)	12.0	22.1

Largest Institutional Owners
(@3/31/25 or latest filing):

Company	% Owned
Vanguard Group	12.5%
BlackRock	11.7%
Fidelity Mgmt & Research	5.2%
State Street	4.4%
Fuller & Thaler Asset Mgmt	3.2%

Short Interest (as of 5/15/25):

Shares Short/Float	5.2%

UGI PRICE HISTORY

THE BOTTOM LINE

Investors seem to be unenthused about what they consider the company's "non-interesting" lines of business, says Steve Scruggs, but he thinks it is well positioned to generate fairly solid and consistent earnings growth over time. He's expecting that to translate into 8% annual growth in intrinsic value on top of a 4%-plus annual dividend yield.

Sources: S&P Capital IQ, company reports, other publicly available information

We generally like the businesses. We think natural gas and propane will play an important role in the energy transition to more renewables and will remain in-demand energy sources for a long time. The regulatory regime for the gas utility has been friendly, allowing the company to earn good returns and adjust prices as necessary. The propane businesses generally have sticky customer relationships and as a result fairly good pricing flexibility.

There's a new CEO, Robert Flexon, who took over in November of last year, but we generally expect him to continue the company's long-term focus and pursuit of growth only at attractive returns on equity. We're modeling normalized returns on equity in the 13-14% range, which is quite good for a company in these types of businesses. The balance sheet is not as pristine as we'd like, with net debt to EBITDA of 4.2x, but in addition to funding a healthy dividend – which has been increased for more than 35 straight years – the company is prioritizing using cash flow to pay down debt.

How cheap do you consider the stock at a recent $36.10 share price?

SS: We started buying this in March of 2022 at 9x forward earnings, but the current multiple on consensus forward estimates is still only 12x. Assuming 3% sales growth and 13-14% returns on equity, at an 8% discount rate our intrinsic value estimate comes to about $42 per share. Even if the gap to intrinsic value doesn't close, if our model turns out to be more or less accurate, intrinsic value will grow 8% per year and we'll collect a 4%-plus annual dividend on top of that. In today's market that strikes us as quite a favorable potential outcome. VII

Additional Important Disclosures

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The share price data in this article is as of May 30, 2025 unless otherwise noted, and the performance data is as of May 31, 2025. **The estimates of intrinsic value and other characteristics noted by the portfolio manager in the article are estimations, subjective in nature, and are subject to change.** There is no guarantee that any company mentioned will achieve the intrinsic value or other estimates noted, will have an increase in share price, or will meet their goals. Investments involve risk, including the risk of loss.

The investment examples, including BFA's internal scoring metrics (the "Four Pillar Process"), are intended to demonstrate the portfolio management process and are for illustrative purposes only. These investment examples were not chosen based on performance. It should not be assumed that any transactions in the future will be profitable. These investment examples are not representative of the overall performance of the Fund. BFA's scoring system is an internally developed system, is subject to change, and is not a complete discussion of the buy or sell decision process utilized by the portfolio manager when making investment/divestment decisions. The Valuation pillar of the Four Pillar Process from which come the intrinsic value estimates is generally based on a calculation of discounted cash flow ("DCF"). The use of a DCF model requires the manager to make certain assumptions and projections of future cash flows and the value of the company's assets, which may be materially different than the actual results.

The statements contained in the article reflect the opinions and views of the portfolio manager and/or the senior analyst as of the date interviewed, is subject to change without notice, and may be forward-looking and/or based on current expectations, projections, and/or information currently available. Such information may not be accurate over the long-term. These views may differ from other portfolio managers and analysts at FPA as a whole and are not intended to be a forecast of future events, a guarantee of future results or investment advice.

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Portfolio composition will change due to ongoing management of the Fund. References to individual investments or sectors should not be construed as a recommendation by the Fund, the portfolio managers, the Adviser, or the distributor to purchase or sell such investments or invest in such sectors, and any information provided is not sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the investment or sector examples discussed. The portfolio holdings as of March 31, 2025 may be obtained here.

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The Fund primarily invests in equity securities (common stocks, preferred stocks and convertible securities) of small-capitalization U.S. companies, defined as those with market capitalization, at the time of purchase, that is no greater than the largest market capitalization of any company included in the Russell 2000 Index. Investing in small companies involves special risks including, but not limited to, the following: smaller companies typically have more risk and their company stock prices are more volatile than that of large companies; their securities may be less liquid and may be thinly traded which makes it more difficult to dispose of them at prevailing market prices; these companies may be more adversely affected by poor economic or market conditions; they may have limited product lines, limited access to financial resources, and may be dependent on a limited management group; and small cap stocks may fluctuate independently of large cap stocks. All investment decisions are made at the discretion of the Portfolio Manager, in accordance with the current Prospectus.

The Fund's Total Annual Operating Expenses are 0.99% (Investor Class), 0.91% (Advisor Class), and 0.80% (Institutional Class). Effective January 1, 2005 through October 31, 2020, BFA charged a single unitary management fee and contractually agreed to pay all operating expenses of the Fund except for brokerage, taxes, interest, litigation expenses, and other extraordinary expenses.

Effective November 1, 2020, FPA became the investment adviser to the Fund, and Bragg Financial Advisors, Inc. ("BFA"), the former investment adviser to the Fund, transitioned to serving as the sub-adviser to the Fund pursuant to a subadvisory agreement by and among FPA, BFA and the Bragg Trust. BFA continues to be responsible for the day-to-day management of the Fund, subject to FPA's oversight. No changes to the Fund's principal investment strategies were made in connection with these changes in management of the Fund, and Steve Scruggs, CFA, Senior Portfolio Manager for BFA, continues to serve as the portfolio manager for the Fund.

The **Russell 2000 Value Index** is a subset of the Russell 2000 Index, which tracks the stocks of small domestic companies, based on total market capitalization. The Russell 2000 Value Index represents those stocks of the Russell 2000 with lower price-to-book ratios and lower relative forecasted growth rates. A total return index computes the index value based on capital gains plus cash payments such as dividends and interest. You cannot invest directly in these indexes.

Terms and Definitions

A **Discount Rate** is an interest rate used to determine the present value of future cash flows. It essentially reflects the time value of money, meaning that a dollar received today is worth more than a dollar received in the future.

Discounted Cash Flow (DCF) is a valuation method that estimates the value of an investment using its expected future cash flows. DCF is used to determine the value of an investment today, based on projections of how much money that investment will generate in the future.

Dividend Yield is the dividend per share divided by the price per share.

Intrinsic Value is a measure of what an asset is worth. This measure is arrived at by means of an objective calculation or complex financial model, rather than using the currently trading market price of that asset.

Operating Margin measures how much profit a company makes on a dollar of sales after paying for variable costs of production.

Return on Equity (ROE) measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested.

Return on Tangible Equity/Tangible Assets is calculated by taking the value of the company’s total equity and subtracting intangible assets, goodwill and preferred stock equity and then dividing by the value of the company’s tangible assets.