

Q3 2025 FPA Crescent Fund (FPACX) Webcast

October 29, 2025

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(00:00:00)

Moderator: [Please see slide 1] Please note that today's webcast is being recorded. During the presentation, we'll have a question and answer session. You can ask text questions at any time. Submit your question in the questions and answers panel and click New Question to submit. If you would like to view the presentation in a full-screen view, click the corner of the slides panel to drag and resize to best fit your view. To restore the panels to their original view, click the Restore icon from the icons on the right side of the screen. 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 submit your issue in our question and answer panel and someone will assist you.

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

Ryan: Thank you. Good afternoon, everyone, and thank you for joining us today for FPA Crescent's Third Quarter Webcast. My name is Ryan Leggio. I'm a partner here at FPA and lead Client Relations.

Steven Romick, Brian Selmo, and Mark Landecker, FPA Crescent's portfolio managers, will address your questions momentarily. The slides, audio, visual replay, and transcript of today's webcast will be made available on our website [FPA.com](https://fpa.com) in the coming week or so.

Q3 2025 FPA Crescent Fund (FPACX) Webcast

October 29, 2025

[Please see slide 2] We include longer-term performance here for disclosure purposes.

(00:02:03)

Before I turn it over to Steven, I want to remind everyone that this is a Q&A-only webcast.

We will review the pre-submitted questions first and then the live ones as time permits. Steven, over to you.

Steven: Thank you, Ryan. I think we'll have plenty of time given there's only three live questions at this point, but thanks for, everybody, taking the time to join today's Q&A session.

[Please see slide 3] As a reminder, we won't be discussing any companies that we are engaged in transacting currently, whether it be a buy or a sell, or those positions that are so small as to beg relevance to Crescent's performance. We also won't be speaking to companies that aren't in the portfolio and of which we have no opinion, including any and all macro-related questions.

The first question that came in over the transom is something that's been quite topical is private credit, and the question is specifically as it's starting to weaken, how widespread do you think the weakness will get?

So I think beginning with a little historical context might be helpful. The private credit market has grown from less than \$50 billion in 2000 to \$1.2-\$1.3 trillion today, with growth accelerating notably after 2019. As banks scale back certain types of lending, especially to middle-market companies, private credit firms have stepped in to fill this financing gap. Its current market size is now about the same as the public high yield market, excluding the hundreds of millions of capital available for private loans that sit on the sidelines.

While some cracks in the private market have begun to show, we have no idea of how bad it might get or how it might affect the market more broadly but looking at the glass-half-full, credit risk exists mostly in private funds held by individuals and institutional investors rather than in banks, as it might have historically. This gives us some comfort that a private credit downturn won't be a systemic issue for our banking system, as the mortgage crisis was. And private credit is a sector in

Q3 2025 FPA Crescent Fund (FPACX) Webcast October 29, 2025

which we've had some exposure in the past, which is why we think it's relatively germane to at least address the question.

(00:04:16)

There is a question regarding the role of holding gold, and given the price of gold has increased 40% or so this year, it's not a surprise if I'm getting some questions about it.

We've heard many good arguments about holding gold over time and certainly don't begrudge those who do. However, we don't feel that we have any particular edge in defining a variant view. Our team has proven to be reasonably skilled at analyzing businesses and we think that's where our efforts are best-suited and we'll continue to focus there.

Interestingly, as a sidenote, gold has performed about in line with stocks since the 2004 inception of the SPDR Gold Shares ETF, which is backed by physical gold. While gold has underperformed the S&P 500 over the last 10 and 15 years, it has outperformed in the previous 5. As to what comes next, we have little idea—well, I probably should say we have no idea—so we continue to focus on what we do well.

I'm going to turn it over to Brian and the question is: how the investment opportunities have changed in response to the changing global macro and micro geopolitical landscape, and specifically tariffs causing onshoring of manufacturing in the US.

Brian: Yes, thanks, Steve. I think it's difficult to attribute market conditions or opportunities to one specific factor such as tariffs or onshoring. We point out that the average holding period in the Fund is 5 years, and close to 10 years for our largest positions, and so we would expect to own the businesses we invest in through various macroeconomic cycles, shocks, and surprises. And so that's sort of part of the research or diligence process.

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In terms of current market conditions or current pockets of opportunity, we've generally been finding new things to do in midcap companies globally. Some specific—I think we've talked

Q3 2025 FPA Crescent Fund (FPACX) Webcast

October 29, 2025

about it in the last call—focus on the healthcare, broadly defined, industry really more in the life sciences and in the tools area; and then also in what I would call high-quality but somewhat cyclical, or at least subject to economic cycles, industrial businesses. And those would be the businesses that are not direct beneficiaries from the AI buildout. The industrial businesses that benefit from that have, as you're well-aware, experienced incredibly strong both business and stock market performance.

Steven: **Thanks, Brian. I'll turn it over to you, Mark, to answer this one. What's the valuation status of your compounders?**

Mark: Thanks, Steven. So we don't formally classify companies as compounders, commercial opportunities, or special situations, but rather we use the terms for illustrative purposes to describe the types of investments we evaluate for ownership. This is all the more complicated by some investments where our ownership or valuation can be attributed to specific segments or geographies that have the characteristics of a compounder even if we might think of the overall proposition as more of a commercial opportunity.

Anyhow, all of this brings me back an anecdote from our first Investor Day, which I think was back in 2012 or '13 if someone wants to help me, when we were up on stage and somebody asked whether a particular name—that being Tesco—was a compounder, and we answered that we thought it was when we bought it but unfortunately now it was a commercial opportunity.

In contrast, one of our better-performing investments over the years was the hybrid special situation commercial opportunity in the form of Alcoa, which we originally bought over a decade ago and ultimately provided us with the ownership of Howmet Aerospace at a very low cost, which is still in the portfolio to this day.

(00:08:01)

But to make sure I answer your question directly, the compounders we follow both in and out of the portfolio by and large trade at higher valuations than they did say a decade ago, and it strikes us the world has gotten wise to the quality factor, to our chagrin.

Q3 2025 FPA Crescent Fund (FPACX) Webcast

October 29, 2025

Which ties to another question. Do you still see value in US large cap stocks?

And, as you may have heard in the past, we invest in securities rather than the market. Now, we would say that despite quality US large cap stocks generally trading at what we would deem to be fair value, we have found pockets of opportunity to deploy capital in large cap US stocks that Brian mentioned previously, albeit our focus has primarily been on international and small/midcap stocks over the past year.

I'll take one more question then I'll toss it to Steven. The question is: with the ever-growing amounts of capex being spent by many of the [Magnificent] 7, including those owned by FPACX, any concerns of future returns necessary to justify such spending given valuations will not be achievable?

So that is literally the billion or perhaps trillion-dollar question these days. We've never really embraced the concept of the Mag 7 internally, as we prefer to focus our analysis on a company-by-company basis. As such, we have the opportunity to observe the financial performance of our technology holdings and those of peers each quarter when they report results, just as those that recently came onto my Bloomberg for each of Meta, Alphabet, and I believe Microsoft.

Now, for the time being, the return on incremental capital continues to well exceed the cost of capital, at least for our technology-focused portfolio companies. But of course, if spending increases from here, everything has its limits. Like others, we will continue to observe this very dynamic market, while pointing out a couple of years ago the market was concerned that a transition from traditional search to AI-supported search would effectively bankrupt Alphabet due to the cost of tokens at the time. Yet, roll forward to today, and the cost of tokens has reduced some 300-fold, such discussion has faded like a sunset.

(00:10:13)

So to conclude, we don't operate as though we have a crystal ball that can see the future, but we also don't think that puts us at a disadvantage as we don't believe anyone else has a crystal

Q3 2025 FPA Crescent Fund (FPACX) Webcast

October 29, 2025

ball either. This includes Mag 7 CEOs who have gone on record for saying the current capex cycle may ultimately lead to disappointment but the risk of being too slow in the AI race is greater than the risk of overspending.

Which leads to a very simple question previously submitted, and I'll toss it to

Steven. Are we in an AI bubble?

Steven: Thanks for that. Pass. You know, I'm just going to go and expand on what Mark said about not having a crystal ball. So there is actually a question that's come over the transom while we're speaking too about AI. So are we in a bubble? Is there any AI-related company that's not overpriced these days?

You know, AI is something that's been brought up, I'm sure little surprise to our listeners, in almost every client meeting I've had in the last few months. I mean, AI is going to transform industries, increase efficiency, and drive new capabilities in healthcare, finance, manufacturing and more. Some public companies, however, do seem to have future AI benefits more than priced in, but there are other companies where the fear of how AI might hurt their businesses have also been more than accounted for in their stock price.

We have therefore spent some time looking for opportunities where other investors have assumed the worst, while at the same time trying to definitely dodge the overpriced AI companies or those that might—those other companies that might be disrupted by AI more than the market believes.

Ryan, I'm going to turn to you for an update on capital gain estimates before we go to the live questions.

(00:11:54)

Ryan: Thanks, Steven. We plan to post capital gain estimates on our website for all our funds the first week of November, consistent with the schedule we have followed in the past. We expect a modest distribution for Crescent this year, with the vast majority in the form of long-term capital gains given that we have reduced our net risk exposure since the beginning of the year.

Q3 2025 FPA Crescent Fund (FPACX) Webcast

October 29, 2025

Through various tools, we are pleased to have reduced capital gains distributions this year and over the past few years by a material amount. Cumulatively, these tools have reduced the Fund's capital gains by more than \$700 million.

To add perspective on the after-tax benefit of our initiatives, through 9/30 the Fund's post-tax returns are on par or better than the Fund's pre-tax returns over the last 5, 10, and 15 years. Specifically, we are in the top 1% of our Morningstar peer group for after-tax returns over the previous 5 years, the top 2% over the last 10 years, and the top 1% over the last 15 years.

On a final positive note related to Crescent, we intend to implement measures to seek a better after-tax experience, all else equal, for Crescent's shareholders in 2026 and beyond, driven by additional tools we plan to utilize. We will have more to share on this topic on our 2/4 call.

As a sidenote, we expect no capital gain distribution for Crescent's sibling equity-only fund, the FPA Global Equity ETF, ticker FPAG.

As always, please reach out to us if you have any questions on this topic through your FPA representative or at crm@fpa.com. Steven, back to you and the team for the live questions.

Steven: Thanks. Yours, Brian.

Brian: **The first question is any concerns that Jefferies Group's hedge fund—not in here but Point Bonita—exposure to First Brands may be an indicator of more losses to come for them? The stock has been hit real hard, especially this month. Do you believe the business has not been impaired at the long term?**

(00:14:16)

So with the memories of someone recommending Bear Stearns as it was in the process of filing, I will be incredibly reluctant to say that there are no chances of further impairments or losses. But with that caveat said, we feel very comfortable with Jefferies's current exposure. We feel very confident in their management team and that's in, I think, an earned confidence based on their performance and behavior. So Rich Handler and Brian Friedman who run the place have been with the firm I think 35 and 25 years. They've been through the Great Financial Crisis, MF Global,

Q3 2025 FPA Crescent Fund (FPACX) Webcast October 29, 2025

COVID, and somewhat famously if you go on Twitter, a margarita getting, or a margarita order getting them out of the Archegos sort of hedge fund run and prime brokerage problem probably five years ago or so. So they have been pretty adept risk managers.

The two of them, along with a board member and internal employees, own about 35% of the firm. They have been proactive in disclosing the direct exposure to First Brands, which is minimal. It will have modest impacts even in the quarterly results.

So I don't think there is any reason to suspect that Jefferies faces a material issue from First Brands. I would also say that in following the situation, in observing the company's investment, investor day, which was I think two or three weeks ago, and I'd encourage anyone interested to either read that or dial in to it, the reporting in the newspaper has been completely divorced from the existing reality.

(00:16:02)

And so the one that really caught my attention was that the FT said that Jefferies CEO lashed out at the investor day. This is, again, this is just misleading. It's a lie. It's like the Gell-Mann amnesia idea. So, no. We're not particularly concerned, don't think the business has been impaired. If anyone, Jefferies is better capitalized both from liquidity of the balance sheet, a lower leverage rate, and earnings power away from the balance sheet and asset-light activities relative to the balance sheet than at any time in the firm's history, and I think you will see them report a very strong quarter.

Steven: **There is a question about what our cash holdings are. And you know, it's currently about 37%, which is about two-thirds commercial paper and one-third US governments.**

Mark: Perhaps this is a time to plug the format of our new literature on the website. Ryan, you could point people to the—nice comment from Jason, who said he took note of the change and he viewed it favorably—Ryan, if you want to give some color.

Ryan: No, thanks. Clients will hopefully see updated formatting not only on our quarterly letter, which is out on the website now and includes not only the commentary by the portfolio managers but the

Q3 2025 FPA Crescent Fund (FPACX) Webcast October 29, 2025

key fund statistics on the page following the commentary. And let's just say over the next few months, you will hopefully see continued improvement of the format and style of our website and materials. So thank you and, candidly, we appreciate any critical feedback as you see updated materials as well over the next few months.

Steven: So Brian, Mark and I are not willing to use the crystal ball and predict the future. Ryan has now made two future-based statements, one about [measures we intend to implement to support] returns doing better on an after-tax basis prospectively and how our published documents are only going to look better.

(00:18:01)

Ryan: That's right.

Steven: So thank you, Ryan.

Mark: **Jason, who is apparently getting paid by question, has another one in here about the shorts. Steven, maybe you want to take that one.**

Steven: Thanks, Mark. You know, shorts have been episodically part of the portfolio. You know, I think this really dovetails back to our cash balances, right? [We have to make a decision, right,—how to best expend our efforts and, as a team, to expend our efforts to look at a bunch of small short positions where the most you can make is 100% if you're exceptionally lucky, [based on our assessment,] and have that be in a very tax-efficient fashion—tax-inefficient fashion, is not necessarily the best way, in our view, to spend time. So there will, on occasion, be shorts when our risk exposure tends to be managed based upon, as a byproduct of opportunity, and for the most part, you will see our equities, or debt hopefully at points in time—public security, public debt I'm talking about—go up when the opportunities are there. And then if they're not there, cash will build. And again, on occasion, we will use shorts but don't—I don't think one should expect them ever to be as big a part of the portfolio as they've been in the past. And also, I want to be clear, I think the key short position we had in the fund was 11% at one point in time. So we're a long way away from that and a long way from the obviousness of those businesses we want to short.

Q3 2025 FPA Crescent Fund (FPACX) Webcast October 29, 2025

And another thing that's changed since then too are the rise of meme stocks. I mean, you can really get your head handed to you, and the asymmetry really does go the wrong way, going back to my earlier comment about the most you can make is 100% but the most you can lose is many, many, many multiples of that [with shorts].

Do you want to add to that, Brian?

(00:20:09)

Brian: Yes, I'd add the following. There have not really been any meaningful single-name alpha shorts in the last call it 10 or 15 years in the Fund. The short positions of any notable size over the last 10-15 years have been paired trades. So they've been tied to a long or they have been hedges to existing long positions through an ETF or sector that we thought was, you know, we didn't want as much exposure to.

The thing I would tell you in terms of what we're doing as a team, we are not looking for individual-name alpha shorts. And so again, I don't expect it to be in the portfolio. We do look for idiosyncratic sort of high-convexity, thinking those puts or options or things like that. Notably, in the last 10 or 15 years, we've done yen puts and we've done interest rates and interest rate volatility, and those have both paid off well, and we would look to continue to do those. But those are done episodically when sort of pricing offends our conscience.

Steven: **There's a question that says, asks: it looks like maybe money is flowing into Crescent or is that capital appreciation?**

And it's mostly capital appreciation. There's been some inflows of late but for the most part, we're holding serve in that regard.

Brian: **I think there—so there's a question about two names in the portfolio, and without getting into the two, but two large Mag 7 names that everybody knows: how do you decide when to trim seemingly overpriced stocks?**

(00:21:49)

Q3 2025 FPA Crescent Fund (FPACX) Webcast

October 29, 2025

And so, you know, this is fair to just talk about process either, both ways. You know, one is that when we're doing a research project or we're following a business, we're trying to understand it under a number of different scenarios. So this goes to whether we're thinking about buying it, when we're holding it, or maybe when we're selling it. And so we think and build low, base, and high case scenarios and in each of those, there is an implicit return over a 3, 5, whatever, year holding period. And you know, of course we're not sure how the world will play out. Nobody is, I think as Mark pointed out earlier.

And so when the math of those scenarios and the quality of the business lineup, and you sort of think [the analysis supports] an equity-like return, you know, low or base case scenario, that's typically going to be when we're buying and adding to positions.

And then, conversely, if let's say the security appreciates and you start to have to believe in the high case scenario, maybe that's when you're reducing the position a bit. And if a security gets to a point where we think you have to believe beyond what is for us a reasonable high case scenario to get equity-like returns, then we typically would be exiting the position outright.

The added layer to that is that we want to have diversification in the portfolio, both by business type, by economic driver, by risk. And so everything I said is sort of stylized for a generic investment but then as it comes to specifically why you would add or subtract this or that name, it would also reference back to the overall exposures that you have and wanted to run. And that's no different for the names in the question or any other name in the portfolio.

Do you think the quality of the underlying businesses in the overall small and midcap industries have deteriorated over the years?

I jumped up and just asked the question but I don't have an answer because I can't tell you what's in the indices. So Steve, you might have a—I may have set you up on that without seeing what the end of the question was.

Steven: I was literally just chatting, what Brian said, to that person who asked the question. Happy to talk in more expansive fashion. I know the team you're with and basically we're happy to continue the

Q3 2025 FPA Crescent Fund (FPACX) Webcast October 29, 2025

discussion. That's true for any of you, if you have additional questions, reach out to Ryan and follow up.

(00:24:13)

The truth is, we don't have, we don't know what exactly is in the indices but I've spent time looking at their composition at a granular level.

Brian: Yes, I have no idea. **Could you expand on the occasional use of put options to capture high-convexity in times of stress?** I think it's a smart way to protect what...

So we haven't necessarily set out to do put options on indices or stocks directly to capture return in times of stress. We have, you know, there have occasionally been times in one's career where instruments are priced in a way that is, that essentially suggests that interest rates will never go above 2% or something, or that the government situation in Japan will be able to stay static for ever and ever with the currency and interest rates. And some of those things just seem not plausible to us, and [investors have] been able to get very high payoffs on derivatives on some of those [instruments].

And so it happens. We look at them probably on the credit side a little bit more systematically. We haven't done anything on the credit side in a long, long time. But there's not really anything to expand on. We're not doing something systematic in terms of buying puts.

Steven: There's, you know, we're looking for asymmetry. We're looking for where, as Brian just said, there's a point of certain asset prices or commodity prices or currency has gotten to a place where we don't think it's potentially sustainable. And if there is a way for us to [seek to] take advantage of that in the derivatives markets, we will look to do so. But there, you can rest assured there are far more things we look at than actually do. We've not done this with oil and we've looked at things in the past. We've not done this with gold and looked at things in the past. And so there's, you know, on occasion we will, we will do this and it will be episodic.

(00:26:15)

Q3 2025 FPA Crescent Fund (FPACX) Webcast October 29, 2025

That is all of the questions that have come in live and also pre-submitted questions. I'm going to turn it back to Ryan for closing and we'll return half an hour to your day.

Ryan: [Slides 4 and 5] Thanks, Steven and team. As Steven mentioned, if you have additional questions or if for some reason we missed your question, please feel free to reach out to your FPA representative or email us at crm@fpa.com. Thank you, everyone, for listening to FPA Crescent's Third Quarter Webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: [Please see Important Disclosures: slides 6 to 8] 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, typically within a few weeks, 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 visit FPA.com for future webcast information, including replays. We post the date and time of upcoming webcasts towards the end of each current quarter, and 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, based on market and other conditions. These views may differ from other portfolio managers and analysts at the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

Q3 2025 FPA Crescent Fund (FPACX) Webcast October 29, 2025

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

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