

# 1Q 2026 FPA Crescent Fund (FPACX) Webcast

April 27, 2026



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Moderator: [Please see slide 1] Hello and welcome to today’s webcast. 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: Thanks so much. Good afternoon, everyone, and thank you for joining us today for FPA Crescent's First Quarter Webcast. My name is Ryan Leggio and I'm a partner here at FPA and lead Client Relations.

Steven Romick, Brian Selmo, and Mark Landecker, FPA Crescent's portfolio managers, are all on the call today. The slides, audio, visual replay, and transcript of today's webcast will be made available on our website FPA.com in the coming week or so.

[Please see slide 2] Two quick announcements before we get started. I'm happy to share that FPA was one of the nominees for the 2026 US Morningstar Award for Investing Excellence, Exemplary Stewardship award alongside industry peers Pimco and Vanguard. A full press release on the nomination is under the News section of our website.

[Please see slide 3] Second, please save the date. FPA Investor Day Los Angeles will be held on Wednesday, October 21 and Thursday, October 22. A formal invitation will be emailed out in the coming few weeks.

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[Please see slide 4] We include longer-term performance here for disclosure purposes.

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 and then the live ones as time permits.

Steven, over to you.

Steven: [Please see slide 5] Thank you, Ryan. You know, as trends will have it, there are a number of different questions that came across that are birds of a feather, if you will, and so we've taken the liberty of consolidating them into two questions.

The first one is—and we have a few questions on the Mag 7 names, broadly speaking, and particularly our exposure to Alphabet and Meta.

Brian: Mark, go ahead.

Mark: Sure, and I think the original questions may be related to Alphabet and Amazon, and we acknowledge that both of those trade on above-market earning multiples. Not to mention, we'd note they're also reinvesting virtually all of their operating cash flow back into the respective businesses.

Over time, we've come to view companies like Amazon and Alphabet as technological conglomerates who are well-positioned to succeed in multiple verticals as a result of their people, physical assets, data, scale, and access to capital.

As an example, back when we made our original investment in Alphabet, Google Compute did not exist as a business, yet here we find ourselves with annualized revenue that would rank the segment within the top 150 companies in the S&P 500 if it were a standalone entity. Perhaps Google Glasses, Quantum Computing, or Wing will be the next moonshot to find success.

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And as it relates to Amazon and its prolific capex budget of approximately \$200 billion in 2026, to quote the 2025 shareholder letter, "The company is not investing all this money simply on a hunch."

Admittedly, however, we have at times struggled with investing in these companies that don't fit neatly in a spreadsheet. But perhaps that's precisely what has caused these businesses to be perpetually undervalued over the years, with earnings growth and share price performance that has trounced the indices.

So I suppose what we're saying is that there's a point where you can do all the analysis in the world but neither the spreadsheet nor consensus forecasts two years out are going to give you the answer as to whether you should continue to remain invested in names with the right kind of outcomes and tremendous convexity. Ultimately, it's a little like believing in Jesus. Either you do or you don't. But yeah, everything has its limits and we sold Netflix last year when the share price was more than double that of where we would have considered adding to the position.

Now, as it relates to other portfolio names outside of Amazon and Alphabet that fall within the spectrum of being AI-adjacent, the valuations have similarly become more demanding as of late. I'll maybe turn it over to Brian now to talk to that.

Brian: Thanks, Mark. There are a couple of questions specifically about AI and do we see it as dotcom risk in tech, and so I'll start with some general comments.

So with regard to AI, you know, we have a great deal of humility when we think about it and we're super-aware that people closest to the technology have a better handle, both on its current capabilities and near-term opportunities, than we do.

But you can count us in the optimistic camp. We're sympathetic to the idea that AI will function like a general purpose technology that is widely distributed and embedded in digital and electronic tools, which will increase the number, type and use cases for those tools.

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We might suggest trying Waymo if you want to experience the magic for yourself. After a few trips, my 80-year-old mother is convinced that robots are the future.

As it relates to the stock market, we are seeing bifurcation and narrowing. AI winners and the beneficiaries of the datacenter buildout are both doing well fundamentally and in the market. Very real economic activity is driving most of the performance. From our perspective, valuations for many of the winners have moved to the point of asking not if the AI buildout is substantial but how big can it get, how long will the buildout last, how sustainable will the margins prove to be, and how long will it take to spool up additional capacity. **Will demand for intelligence ultimately be unlimited or near-unlimited? Essentially, how long will demand outstrip supply?**

There are great businesses exposed to the buildout and maintained businesses—mundane businesses producing terrific results that are trading as if the supply and demand imbalance will allow them to become and remain great.

For those companies driving the technology, we struggle to confidently predict the long-term microeconomics. Questions such as how much value will be captured by the innovators, how much will be competed away, and where will the balance between profit and consumer surplus ultimately settle—these are difficult questions. So over the last six months we've been reducing our exposure to the more expensive and buildout-exposed positions.

On the other hand, we see compelling opportunities in midcap companies that, while not direct beneficiaries, should have robust futures in an agentic world. Generalizing, over the last year or so, we have bought two dozen industry-leading niche companies at 8 to 15 times earnings. Our purchases have been industry and geographically diverse. We think that they will produce equity-like returns in a base case and, as a group, have a low single-digit return in a crummy scenario. So essentially, okay absolute results in the range of scenarios we can foresee.

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Many of these companies were mentioned in our fourth quarter letter, and we have bought another half dozen or so in the first quarter. Given that we are actively building positions, we don't plan to promote any of these on this call.

Long-term listeners will recognize that this represents a significant level of activity in terms of new names and portfolio turnover for our fund. We feel quite good about the prospects for absolute returns for our recent purchases over the next five years. We believe that the portfolio changes we are making materially improve the probability of having an acceptable return over five years; but we fully recognize the potential for the portfolio to lag should the market remain bifurcated or even accelerate in certain parts of the market that we currently find difficult to answer the questions being asked.

Mark, I'll now turn it back over to you to a topic on software. Question on software.

Mark:

Sure. **There were a handful of questions that were pre-submitted all effectively asking software is down a lot. Have you responded and what are you thinking about this?**

So to start, we have had significant exposure to the software sector in the past. As we mentioned in the [Q4] 2025 commentary, Microsoft was a top ten holding for us for the better part of a decade between 2010 and 2020. Oracle occupied a similar position for many years, and we've had more modest exposure at times to other names.

So while we don't consider ourselves sector experts, members of the team have been involved in this space for over a quarter of a century, dating back to when one of us was the associate on the private equity deal team that originally funded Constellation Software.

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Now, as for why we've been attracted to the industry, to state the obvious, there has historically been a lot to like, including the potential for top-line growth, high incremental margins, revenue predictability, and the asset-light nature of the industry. We are not unique in these observations and so, not surprisingly, even unsuccessful software companies often traded at elevated multiple of sales. In an effort to justify valuations, the investment community even conjured up nontraditional metrics to favorably view software companies such as the Rule of 40, which basically said no multiple of sales was too high provided a company was growing its combined revenue and fake EBITDA margins by at least 40%.

We say "fake EBITDA" as, by and large, software companies exclude stock-based compensation or SBC when they report adjusted EBITDA or EBIT margins. So when you hear a talking head on CNBC say that the terminal value of XYZ is priced for bankruptcy or the multiple to FCF is only 10 times, they're almost certainly excluding SBC.

To state the obvious, if the real FCF of a company that can grow say 10% a year is greater than 20 times, it would take about 13 years to get to breakeven in the theoretical event 100% of real FCF were returned to shareholders.

Nonetheless, despite the elevated multiples industry participants have traded at over much of the past decade, we have been intrigued by the qualitative characteristics of the sector. In the spirit of chance favoring the prepared mind, we even went so far in 2020 to hire our first dedicated industry analyst to exclusively follow the software sector.

During the subsequent years, we did deep dives on countless companies but inevitably, as we pragmatically reviewed the risk/reward potential, we found ourselves resigned to sit on the sidelines due largely to valuation, and we ultimately wound down the experiment.

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Roll forward to the recent SaaS-pocalypse and we have seen an indiscriminate selloff with both pre-profitable SaaS midcaps and market leaders all now trading at prices down demonstrably from where they were 12 or even 6 months ago. But what one must keep in mind is that, in our opinion, the fall from grace did not start from average valuations but rather, rich multiples. Moreover, with the arrival of agentic computing, the cone of outcomes has widened, manifesting in a decline in multiples even if the impact of agentic computing has yet to be felt.

However, it is that uncertainty that potentially creates an opportunity for investors like ourselves to double down on our research and try and decide if the risk/reward at current prices creates for an attractive investment.

While we don't want to get into a discussion on individual names we're working on, by following the industry over the years, we do have some tenets that we continue to believe hold true.

As an example, we believe that procuring the lowest cost is not the primary purchasing decision for Fortune 1000 customers. For as long as we've been following this sector, low-cost alternatives such as OpenCode and offshore consulting houses have existed to spin up discounted software solutions if a client were so inclined. Similarly, there are off-brand maintenance shops that are available to provide maintenance lower than that of the incumbents. Nonetheless, time and time again, Fortune 1000 companies rely on the established industry leaders for a variety of reasons related to familiarity of use, security, governance, and what we will generally describe as CYA or CYB—cover your butt.

As it relates to other fundamental views, if you put a gun to our head, we would tell you we think that the industry will expand rather than shrink, as spend on software spend

will increase at the expense of labor; it is easier to upsell or convert an existing customer than to win a new one; and that SBC of course is a legitimate expense—to name but a few.

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Now, given the time we spend following the industry, we also have bias for various verticals, management teams, and applications. As it relates to many of the smaller SaaS companies that IPOed during the wave, we continue to believe that most lack the business model, management strength, or both to get to a stage where they're going to both grow and throw real cash flow in their current form.

However, in the spirit that, as Brian alluded to earlier, securities ask you different questions at different prices, we are rolling around in our heads how the industry may evolve as it relates to the impact of agentic compute on the future margin structure and revenue potential of various industry participants. Should we get involved in the sector, purchases are likely to take the form of a basket approach whereby we conduct bottoms-up analysis on each idea but ultimately spread our exposure to the sector across several names rather than few, and our exposure would likely to be concentrated more amongst larger caps rather than the SMIDs.

I'll turn it back now to the group for further questions.

Steven: Yes, there's a question, you know, Brian, I'll just put it over to you. I think you addressed a question, something, you know, touching on commodities last quarter. **It's a similar question, but has Crescent ever invested in commodities or commodity-linked ETFs, you know, and if not, why not?**

Brian: The answer is we have not invested in commodities or—physical commodities or commodity-linked ETFs. We could. We have looked at some derivatives on commodities in the past or certain commodities in the past. Our exposure to the sector has tended to be through businesses that we think have both an attractive profile of underlying commodities, specifically Grupo México and Glencore, and also have the potential to reinvest capital at an attractive rate and possibly are at, from our perspective, discounts to what the underlying commodity price might be. But it's something we could consider in the future.

(00:16:13)

Steven: Thanks, Brian. Ryan, I'm going to turn it over, you know, let's turn it over to you because there is more of a housekeeping-related question on, you know, that you or—that I think you're better positioned to address.

Ryan: Sure, thanks, Steven. **We got a question in regards to which percentage of our capital gain distributions are being reduced with FPA Crescent's rebalancing tools.**

So as background, the primary purpose of the tools that the questioner is referring to that we use are used to efficiently rebalance the portfolio, and a positive byproduct of these rebalance trades may be a reduction of unrealized capital gain exposure in the Fund.

While it's hard to say how much capital gain distributions will be reduced in any given year, especially so earlier in the—early in the year, we think these tools could be meaningful for the foreseeable future.

So, specifically to the question, the short answer is so far this year, it is a meaningful percentage, but we would not put too much weight in that statement because it's still very early in the year and we've only looked at data through the end of Q1.

I will also say that, as importantly, we are on track to meet our goal of low single-digit cap gain distributions, which is what we wrote about in our fourth quarter letter. And for more information on this topic in general, we would refer you to the end of our Q4 letter, which is available on our website, which goes into detail on this topic.

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Steven: Thanks, thanks, Ryan. I should have said this at the top of the hour but questions—we're going to address questions that have been pre-submitted as well as those that have, that are coming across the transom as we speak. There's just a few of those. But we also won't be answering those questions on companies in which we are currently transacting or companies which we don't have any particular view or, for that matter, some of the larger macro questions that often get posed to us about where interest rates or the economy might

be going, and to which we really have no idea. But I'll turn it to, you know, Brian to address the one across—the first one on the top.

Brian: **So there's a question, "Can you talk about your feelings on Comcast and why it may not be a melting ice cube?"**

So would say we feel pretty terribly about how we have handled our cable investments. I think that we, you know, many questions you try to answer come down to sort of 60/40s and I think that we got a number of 60/40 questions wrong in terms of how we leaned or felt about cable, specifically the viability, both size and duration, of the fixed wireless challenge; and then to the fiber competitors' willingness or enthusiasm to invest at very low returns on invested capital.

Those two realities have left the cable industry in a position, or the US telecom industry in a position, that from our perspective is going to look a lot more like, you know, European or international markets, which is going to be, you know, at least three—and possibly with satellite, four—competitors in almost all markets. That's going to be a pretty crummy business.

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**And so then I think the follow-up question would be, well, why do you still own any of the cable companies?** And the answer to that is essentially a math problem. And so we and our, you know, models or expectations are for the cable companies to shrink meaningfully over the next five to seven years, but for the terminal competitive state to be somewhat reasonable among those three to four competitors we talked about, and a combination of the cash flows in the interim and something like an 8 to 10 times multiple of the free cash flow five or so years out, looks like equity-like returns from here for us, and that's why we continue to hold them.

**And so in terms of Com—the second part of the question is why Comcast specifically might not be a melting ice cube.** I think that there is a part of Comcast business, which is the media business, specifically the studio and the theme parks, that are pretty terrific. I mean, you saw the kind of bidding that took place for the Warner Brothers assets and, you know, the theme parks are a terrific asset that, you know, I think will be more

valuable in the future. So Comcast cable is, you know, 70-80% of the story and then the part of the business that probably won't shrink and should grow is say 20%.

**There is a question, "What is your cash ex..."**

Steven: Yes, and the cash exposure we have to answer not a current cash exposure.

Brian: No.

Steven: We're required just to kind of keep it to the end of what is public, which is the end of Q1, and that number at that time was 38%.

Brian: Okay. Thank you, Steve, because I would not have—probably answered today's number.

**There is a question, "Do you use large language models in the research process? If so, has it been helpful?"**

So the answer is yes and I think yes, it's been helpful, and I particularly thank Michael, Kyle, and Aymiee Lee on our team, two of the analysts and someone in the—in tech at FPA, for building our own agents. And so, you know, I mentioned the magic of Waymo earlier. I don't think anyone at the table would have expected five years ago that FPA would have coded 14 agents and actually written and now shipped to the research team, you know, software code.

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So, you know, we use them. It's helpful. We also use the, you know, [enterprise versions of] NotebookLM and just general Claude, OpenAI, and Gemini. So, yes.

Steven: Our definition of cash is cash and equivalents. It could take the form of commercial paper, Treasuries, for example. Just that which is super-safe, super-short-term, super-liquid so we can take advantage of it to pull down in periods of disarray.

Let me turn it back over to Ryan for some closing comments if you have any, Ryan.

Ryan: Thanks, Steven. Those were all of the live and the pre-submitted questions that we received. If we missed your question or if you have additional questions, please feel free to reach out to your FPA representative or email us at [crm@fpa.com](mailto:crm@fpa.com).

At this time, I'll turn it back over to the system moderator for closing comments. Thanks, everyone, and have a pleasant day.

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, typically within a few weeks, at [FPA.com](http://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.

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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.

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

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