3Q 2026 FPA Crescent Fund (FPACX) Webcast

October 27, 2026

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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 for FPA Crescent's Third Quarter Q&A 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 Fund's portfolio managers, will review the Fund's recent performance and its current positioning. 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. We include longer-term performance here for disclosure purposes.

[Please see slide 2] Before I turn it over to Steven, I want to remind everyone that this is a Q&A webcast only. We will review the pre-submitted questions first and then the live ones as time permits.

[Please see slide 3] **One question I will take first which we got is, "What are your estimates for capital gain distributions, if any?"**

(00:02:01)

We recently posted preliminary capital gain estimates on our website. For FPA Crescent, we're all pleased to report an approximate 1% capital gain distribution for this calendar year, comprised 100% of long-term capital gains. This estimate is in line with our low single-digit annual capital gain distribution goal that the portfolio managers detailed in their Q4 2025 letter.

In addition, I'm pleased to report that there are no estimated capital gain distributions for the FPA Global Equity ETF.

At this time, it's my pleasure to turn the Q&A session over to Steven.

Steven: Thank you, Ryan, and I appreciate all of you taking the time to join today's Q&A session. As a reminder, we won't be discussing companies that, in where we are—that we're currently transacting in, whether it be buying or selling, or positions so small as to be largely irrelevant to Crescent's performance. We also won't speak to companies that are not in the portfolio and we will studiously avoid addressing macro-related questions, to which we have little value-add.

We have three fixed income questions that I'm going to collectively address. They are, "At what point does fixed income become a viable investment strategy for Crescent?", "Have you seen credit spreads widen with a decent margin of safety[1] to take some positions?" and thirdly, "What would you need to see in order to have duration?"

Mark, will you put up that slide so we can have it in the backdrop while we—while I chat? Thank you.

(00:03:56)

I'll take the easy one first: duration. We are generally more comfortable weighting credit risk at the expense of interest rate risk, since we have never, and never will, be able to predict where interest rates are going. We actively seek to assume credit risk when both the absolute yield and spread to the risk-free rate support taking that position.

If, for example, we can achieve a 10% rate of return or better over a short- to intermediate-term timeframe and all we have to do is determine whether or not

[1] **Margin of Safety** - Buying with a "margin of safety" is when a security is purchased at a discount to the portfolio manager's estimate of its intrinsic value. Buying a security with a margin of safety is intended to provide a cushion between the purchase price and the portfolio manager's estimate of intrinsic value in the event of an unexpected occurrence or analytical error. A purchase made with a margin of safety does not guarantee the security will not decline in price.

we will get our principal back at maturity, then we could be interested, subject to what other opportunities might exist in the public market and whether the covenants of such loans are lender-friendly.

Fixed income becomes viable for us when we can find loans that help us achieve our goal of an equity-like rate of return with less risk than the market. While yields have risen and spreads have widened a bit, we haven't yet found any corporate credit that meets our parameters.

This slide offers some support for that conclusion and shows yields on non-investment grade bonds at the end of Q3 at 6.9%, 1.5% below the average of the last three decades, and spreads remain generationally tight at 2.7%, just 52% of that historic average. That said, in the last couple of weeks, we have been devoting a bit more time to high yield.

And Brian, why don't you—do you want to speak to our recent foray into TIPS?

Brian: Yes, in terms of any level of duration, we put about 2% of the portfolio into a combination of 5-, 10-, and 30-year TIPS and the 2-year bond in the late third quarter.

Steven: I am going to turn it over to Mark. There's a—we have a few AI-related questions, some of which we have addressed previously. But Mark, why don't you—I'll let you work through those.

Mark: Thanks, Steven. **The first question is, "There are many headlines about an AI bubble. Does your team see any warning signs? Does this current market environment remind you of any past periods of excess?"**

(00:06:11)

And I'll answer in that I'm not sure if there is a statute of limitations that will prevent me from referring you to the Q2 '26 letter written by Brian on this very topic but I'm going to come clean personally and just say I intend to rely on this as my canned answer to questions about a possible AI bubble until Ryan Leggio tells me we can't any more.

That said, there is now another question. **"About 7% of the portfolio is in Alphabet and Meta. Aren't these two companies grossly overvalued given the gambles they're making in AI?"**

And we're going to take the liberty of assuming there are two questions here, given how it's phrased. The first is whether we're being irresponsible with 7% of the portfolio in Alphabet and Meta. As long-term listeners know, we consider ourselves stewards of your capital with two primary mandates: capital appreciation, and capital preservation.

As it relates to the preservation part, we recognize Warren Buffett as the GOAT of investors, but even he saw Berkshire Hathaway decline by 50% or greater on three separate occasions. If we were to assume the same fate were to strike Alphabet, and again for Meta, that would be a 350-basis point hit to our portfolio, all else unchanged. We would not enjoy it if that were to occur but we think we would live to fight another day, given on the other side of the portfolio, we have a significant cash position complemented by what we believe to be a number of highly resilient businesses in the form of healthcare, consumer staples, recurring software, insurance brokerage, just to name a few. Which brings us back to a point

often made by Brian, that we're not managing the portfolio to produce an optimal return in any one environment but to deliver an adequate return across multiple potential outcomes.

(00:07:55)

Now, the second part of the question as to whether Alphabet and Meta are grossly overvalued. If we take at face value that the management teams of Meta and Alphabet are economically oriented animals running two of the world's most successful companies of all time, we believe they deserve the benefit of the doubt that their investments in artificial intelligence will continue to generate returns greater than the cost of capital, as they have thus far.

But let's say it turns out that they have been just lucky these recent years, rather than smart, it will mean they will ultimately have incinerated all of the FCF[2] they generate over the next few years until they are forced to come around to the realization that they are throwing good money after bad. Even in such a scenario, we think we are currently paying a multiple roughly equal to that of the S&P 500[3] on Meta's family of app earnings looking forward one year, which doesn't strike us as a gross overvaluation. As for Alphabet, if we back out the value of the company's net cash and mark-to-market their stakes in various investments in private and public companies, while also adding back the losses from the company's other bets, the value on consensus GAAP earnings for 2027 puts the valuation we believe

[2] FCF is free cash flow.

[3] **Standard & Poor's 500 Stock Index (S&P 500)** is a capitalization-weighted index which covers industrial, utility, transportation and financial service companies, and represents approximately 75% of the New York Stock Exchange (NYSE) capitalization and 30% of NYSE issues. The S&P 500 is considered a measure of large capitalization stock performance.

at circa 20 times GAAP earnings, which does not strike us as grossly overvalued for a business which has a front-row seat to the revolution in artificial intelligence.

Of course, with both names there could be a bubble in the earnings rather than the multiple, but if that does turn out to be the case, you can take some comfort that we are not unaware of that risk and the knock-on effect it could have to other names in the portfolio, which is why you have seen us completely exit or meaningfully trim various portfolio holdings that are exposed to the AI ecosystem, and we have used those proceeds and recycled them into newer names you have seen discussed in recent commentaries and in quarterly calls. Of course, only time will tell as to whether our conservatism in this regard was warranted.

I'll now turn it over to Brian.

Brian: I don't think there's any questions.

Steven: We, well, I mean he's turned back to me and… Just, just another…

Ryan: Moment.

(00:10:08)

Steven: Just a couple of moments to see if anything does come across but this is a first for us. Makes for a very short conference call. I don't—so nothing's coming across. If you do have any additional questions, please reach out to Ryan Leggio and our client service team, and they'll be happy to get the answers to other questions you might have. Thank you all for your time. Ryan, I'm going to turn it over to you to say any closing remarks.

Ryan: No, no closing remarks. Thanks, everyone, for joining us and if there are any follow-up questions or additional questions, please don't hesitate to reach out to any of us

individually or to crm@fpa.com. Thanks, and have a wonderful day. Operator, back over to you for closing disclosures.

Moderator: Thank you for your participation in today's webcast. We invite you, your colleagues, and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website, 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.

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

(00:14:26)

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