Q4 2025 FPA Crescent Fund (FPACX) Webcast
February 4, 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 Mark Hancock. Mark, the floor is yours.

Mark H.: Thank you. Good afternoon, everybody, and thank you for joining us today for the FPA Crescent's 2025 Fourth Quarter Webcast. My name is Mark Hancock and I'm a partner here at FPA.

Steven Romick, Brian Selmo, Mark Landecker, the 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.

[Please see slide 2] During this slide section, we start with performance. We include longer-term performance here for disclosure purposes. At the end of the prepared remarks, we will review the pre-submitted questions and then address as many live ones as we can before the end of the time.

Thank you, and now on to Steven.

Steven: [Please see slide 3] Thank you, Mark. Despite all the volatility around Liberation Day tariffs—you want to change the slide to the executive summary please, Mark, thank you—the bull market continued in 2025, with the MSCI ACWI and the S&P 500 ending near all-time highs, making the stock market more expensive, obviously, it was when, to start the year.

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The 12-month return that we achieved in the Fund was 79% of the global market, outperforming the Fund's 65% average net risk exposure for the same period. Given the less favorable risk/reward prospects today, the Fund's net risk exposures decreased to 65.8% from 67.5% during the past 12 months. While our large US—while our US large cap holdings look less attractive, we've identified select opportunities in small and midcap names, both domestically and overseas. Corporate credit spreads remain near all-time lows, which continues to explain Crescent's negligible high yield exposure.

[Please see slide 4] Crescent gained about 17.7% in the trailing 12 months. While we prefer to look at performance over a full market cycle or rolling 5-year periods, we are pleased the short-term results outperformed our average net risk exposure and Global 60/40 secondary index while still keeping pace with the S&P 500 during the year.

[Please see slide 5] Part of the reason for our favorable results last year was stock selection. Crescent's portfolio of long equities, as you can see in this slide, returned 25%, outperforming the ACWI, the Fund's primary illustrative index, and the S&P 500.

[Please see slide 6] In the previous 12 months, Crescent's top 5 performers contributed 8.1% to its return, while the bottom 5 detracted 2.4%. In the trailing 12 months, there was no significant news that drove the winners higher and the losers lower.

[Please see slide 7] Reflective of a rising market making stocks trade more expensively, as I pointed out earlier, our risk exposure declined by about 2 points but, candidly, that's mostly noise. You can see that on a, you know, in market volatility even on a week-to-week basis.

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[Please see slide 8] I'm going to turn now to Q&A. We, just to, you know, some political cover at the outset. We will, we're going to take the questions, but first the pre-submitted ones followed by the live ones we receive.

You know, as is customary, we'll keep our comments to topics where we have a point of view, which means you don't have to sit and listen to our uneducated point of view on where gold is going, what a Fed chair might do. We also won't be discussing industries in which we haven't invested or businesses in which we are currently transacting. And I just mention this upfront just so you might understand that we're not just ducking a question.

We appreciate the long-term partnership we've had with so many of our like-minded investors, who maintain a similar value-aware point of view and a long holding period. To the old and the new, we seek to continue to earn your trust through the inevitable market cycles for the capital you've entrusted to us. And now let's go dive right into the questions.

"How have your fund flows, inflows and outflows, compared to other active value managers?"

Crescent's fund flows compared favorably to others in 2025. We'd like to believe that's due to us having delivered on the Fund's objective over the long term and over the recent past, particularly the last 5 years.

"Where does FPA stand on its IFF position?"

International Flavors & Fragrances, or IFF, operates in the fundamentally attractive industry of manufacturing ingredients used in food, beverages, scents, home, personal, and healthcare products. Its products are ubiquitous across many household staples. They produce one-third of probiotics, the enzyme used in half of cold-water laundry detergents, another enzyme used in 20% of the beer brewed globally, and one-third of yogurts using IFF culture, just to name a few.

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We have a constructive view of the CEO, Erik Fyrwald, who joined a couple of years ago. He has renewed the company's focus on being best in class operationally, with a smaller product suite. The company has sold, and will continue to sell, non-core assets, which will decrease their leverage and hopefully allow for higher margins and return on capital. Hopefully that will translate into improve earnings and cash flow that should drive its stock price higher.

I'm going to turn it over to Brian for the next bit of questions.

Brian: Thanks, Steve. First question, “What scenarios would cause you to deploy the majority of the cash position?”

I’ll back up and start with that we would like to be more fully invested, and our investing is done on a bottoms-up basis. And so I would not necessarily think about one scenario but I would think about market pricing or opportunity in individual securities is what would lead us to deploy more of the cash position.

Specifically, I would think about absolute valuation or absolute attractiveness coupled with adequate diversification and risk profile, to be consistent with our mandate of equity-like returns with less risk. And so that would require equity securities to be priced in a way that we believe offer an attractive absolute return from the valuations on offer, and provide adequate diversification so our risk profile could be less than, say, just the equity market.

In addition, spread widening on credit would be very helpful for us in terms of finding opportunities to deploy capital into fixed income. I think I could imagine a number of different scenarios in which that type of eventuality could come to be. It could be a broad market selloff, it could be individual sectors or industries, or it could be just general malaise.

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Next question is, “After a decade of neglect by investors, can you give an update on your thoughts on NOV and oil services sector in general?”

So, sure. I’ll start with a general observation on oil services. I would say that it is a necessary and technologically and mechanically impressive industry. I think it’s a credit to human ingenuity when you think about oil recovered in the ultra-deep water or 3-plus-mile frac laterals. But despite that impressive technical capability, over the long term, we've observed that the industry is a very difficult business and that it produces commodity-type returns on capital employed. It is subject to booms and busts and, as an industry, is most unappealing to us as an investment when the financial results look the best.

In fact, early days, Mark Landecker and I did a study on the industry about 13 or 14 years ago, at a time when fundamentals were quite strong, and we decided to sell everything that we owned. Now, despite continuous technological improvements, it appears almost impossible for the service companies to outrun the macro capital cycle of the industry. So that would be some general industry thoughts.

We do, however though, think it is a necessary industry that can earn equity-like returns on capital and so if individual companies are available at what we think are discounted valuations, or assets in the form of a number of the energy ships that we bought five years ago are available at meaningful discounts to depreciated replacement cost or scrap value, we would find it to be an attractive investment.

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In terms of NOV, NOV operates globally and primarily makes drilling, pipe, and pressure equipment. Generally, the company has a top 3 market share position in its respective niches, is a technical leader, and we think that these leading positions and consistent innovations should allow NOV to earn better-than-commodity returns over time.

The company has a great balance sheet, has an exemplary capital allocation policy that respects the cyclicality of the industry and calls for regular dividends and buybacks and, as you mentioned, the industry has been fairly depressed and so we were able to purchase shares at approximately tangible book value and about 8 times earnings or free cash flow. That tangible book value is incredibly, I would say, sturdy as it mostly is represented by net receivables from investment grade oil and drilling companies.

Now, with that profile, we think that NOV offers an equity-like return over time. But what I haven't mentioned is what we think of as the kicker, or maybe why we selected NOV, and that is NOV's offshore high-spec drilling business is one of the genuine franchises in oil services. Unfortunately for NOV, the world has not built a high-spec drill rig in over a decade. But at some point, we would suspect that there would need to be another new build cycle for offshore high-spec drill rigs and if and when that comes to pass, we may all be reminded of what NOV used to stand for, because when we first looked at the business about 12 years ago, we were told that NOV stood for "No Other Vendor." And with regard to high-spec offshore drilling, that is pretty much true, and in the past, that allowed NOV to earn profits that were almost equal to the market cap that we paid for the company.

Mark, I will turn the next question to you, which is, "Thoughts on recent changes at…" and there's a couple of questions on Becton and future catalysts and whatnot.

Mark: Sure, thanks, Brian.

Brian: Yes.

Mark: There's also a question—there's also a question in the queue. "BDX…" which refers to Becton Dickinson "…has gained a lot of attention recently from some very impressive managers. What makes this so attractive?"

So I'll answer both those questions. I should say I had a short and a long answer prepared but, given the dearth of questions in the queue, I'll milk this one for all it's worth so we can try and get 30 minutes out of this call, and I'll give the long answer. And I will note, however, Becton Dickinson is now in our top 10 holdings, so hopefully it deserves getting a bit of time.

So BDX, Becton Dickinson, is a name we've been following for about 15 or so years and if you were to look in our digital files, you'd find notes an analyst made from a trip out to headquarters to spend a day with management back in 2009, which I will also note involved a redeye flight to and back from JFK in order for the analyst to avoid incurring the cost of an overnight hotel. But more importantly, in the spirit of evergreen research, we actually only made our first purchase of BDX in 2025—more than 15 years after that initial visit.

Now, importantly, the business has changed quite a bit during this period. Back then, the cash cow product within the organization was a segment that produced disposable syringes and needles, or what those in the industry would refer to as "high-end sharps." That business was subsequently spun off and significant corporate activity has taken place that has involved the business moving up the technology curve with multiple acquisitions, including CareFusion, Bard, and the critical care unit of Edwards Lifesciences.

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To add some complexity, BDX sold their diagnostics business to Waters Corp last year and, as a result, BDX shareholders will be receiving stock in Waters Corp later this month when the transaction is finalized.

So as it stands today, a BDX shareholder gets stock in Waters and continues to own what we call "BDX RemainCo," which is a global medtech business that generates about $18 billion of revenue, focused on drug delivery, monitoring, and multiple other niches.

Sticking with RemainCo, the business has a leading portfolio of products where the number 90 is particularly helpful as part of the descriptor. That's because 90% of sales come from consumables, 90% of hospital patients interact or touch a BDX product during their visit, and 90% of sales come from products in which BDX holds a market-leading position.

Importantly, market shares in the spaces where BDX competes tend to be quite stable over time, but the tradeoff is that growth across the portfolio is modest and skews towards low to mid-single-digit.

However, as market leader in almost all of its niches, BDX can spend more on R&D than its peers, and benefits from economies of scale as it relates to manufacturing and distribution. This translates into a business that generates operating margins of circa 25%, with room for improvement over time due to some self-help initiatives currently underway.

Return on tangible capital is impressive but the return on total invested capital is weighed down by tangibles related to somewhat high multiples BDX historically paid to acquire the aforementioned assets that allowed the portfolio to move up the quality curve.

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But, going forward, management has singled—signaled—M&A is more likely to be bolt-ons than transformational, and the best use of cash at the current valuation is to buy back shares of RemainCo. We wholeheartedly agree with management in this regard, as our purchase price created RemainCo at what we believe to be circa 10 times earnings, which we think is simply too cheap given the quality of the business.

So if you stand back and think about the setup, we're inclined to believe earnings go up rather than down over the next 3-5 years, suggesting an equity-type return provided the multiple does not decline. And if you put a gun to our collective heads, we would hazard to guess the multiple 5 years out even has the chance of being somewhat higher than where it stands today.

As for the next question, there's two of them which I will put together. The first is, "What is the pathway for international investment?" The second was, "I love that you're buying small caps. You had mentioned a handful of years ago it would be hard to buy small caps in the Fund like you did in the past. Have your thoughts changed on your ability to buy small caps or were these isolated purchases?"

[Please see slide 10] Morgan, if you want to flip over to slide 10, this is an excerpt from our recently published commentary and in that, you can see the purchases made over the past 24 months, and we draw your attention to the concentric circles or the single circle in the middle, which highlights purchases made that had a market cap of less than $15 billion at purchase. There's no actual definition, strictly speaking, for SMID caps but that's one that we chose to use, albeit somewhat arbitrarily.

And you can see that those circles effectively, or that one circle, has more names than the above-$15 billion market cap in either international and domestic. Moreover, you can see that there’s a number of international names that show up in the SMID category, including Azelis, Hirose, Hoshizaki, IMCD, Magnum, Nippon Paint, Rohto, and Sodexo. And then in the United States, we’ve got Avantor, Bio-Rad, EchoStar, Fortune Brands, NOV which Brian previously discussed on this call, and Vail Resorts.

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So we think we’ve been particularly active both in terms of international as well as SMID and then, as you can see, purchases of a larger market cap have been complemented both internationally and domestic as well. So despite the fact it may not look like, from our net risk exposure, we’ve been particularly busy over the past 24 months, like a duck’s feet underwater, there's been a lot of paddling going on where we think we've been upgrading the portfolio as it relates to the potential risk-reward over the coming years.

Brian: [Please see slide 8] Thanks, Mark. There is a question on, “Wondering on individual stocks owned and defensive strategy positioning of the Fund?”

I would say that we own a number of consumer staple companies, healthcare companies, and well-capitalized, durable businesses, which I think in total keeps the Fund in good shape to deliver on its mandate. But we do not particularly identify, say, a defensive stock as a strategy or something that we are aspiring to own. We want to have a diversified portfolio.

There is a question about the thesis on Delivery Hero.

I would say that the thesis is a couplefold. One, the delivery business tends to be a local-scale business where the number one player, you know, remains in its leading position or can defend its leading position and makes attractive economics in the market. Delivery Hero has a number one position in something like 90% of its GMV, and so there is a thought that they will be able to defend those positions.

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And then secondly, there is a sum-of-the-parts or look through to the various underlying businesses that they own and what the implied valuation is on each of them relative to either reported transactions taking place on the platform or professional. And I think on that basis, it's incredibly undemanding on both an absolute level and then also compared to other peers in the industry.

Mark: I'll jump in. There's a question, "Could you talk about German company Merck? What is your thesis with it? Do you intend to rotate more money out of USA towards Europe?" Mark, if you want to bring back slide 10 again.

[Please see slide 10] So one of the sectors that was particularly out of favor over the past couple of years has been healthcare, and we've talked about this on a prior call but if you think back to one of the better-performing sectors during 2020-21 would have been healthcare. We had virtually nil exposure and during any meeting with potential clients, they would say, “You guys don’t have any health exposure. Don’t you know it’s the best-performing sector?” We’d say we know, back in 2009-10 it was actually our biggest exposure when it was cheap. We just haven't found much to do as of late. People didn’t like what they heard and didn’t invest with us, which is fine.

If you roll forward, healthcare then, I’ll say the bloom wore off the rose following the COVID boom, and you can see from these names, we’ve rotated into quite a number of new healthcare additions, some of which we’ve actually owned in the past as well such as Thermo Fisher, complemented by Becton Dickinson, which we discussed, Avantor, Bio-Rad, Merck KGaA and, to a degree, you could say Rohto over in Japan as well. And then we have exposure to life sciences also through IMCD and Azelis. So we have significant exposure.

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Now, going to German company Merck specifically, I'm going to go out on a limb and say I believe it’s the oldest company in our portfolio, founded more than 300 years ago. Family-controlled company. With that, they did not participate in the heady days of M&A at high multiples during the COVID boom so they have a very strong balance sheet. The business has three segments. One would be pharma. Second would be life sciences, where perhaps the best-known franchise would be Sigma-Aldrich. And then they have an electronic materials division that largely supplies to the semiconductor industry.

We're probably least excited about the pharma segment and most excited about life sciences and electronic materials, both of which we believe are high-quality franchises that have market-leading positions in their niches, largely selling consumables.

As for our purchase price, we bought it at a low double-digit multiple of after-tax earnings, which we think is quite reasonable given the growth prospects, and I would say the name was rather out of favor along with the overall healthcare sector, not different to some of the other names I mentioned, which we believe gave us the opportunity to once again build out our healthcare exposure in a somewhat contrarian manner.

And as for the question, "Are you intending to rotate money out of USA towards Europe?" long-term listeners know we're really bottoms-up investors so there was no, necessarily, USA/Europe or vice versa thought there. We're just looking for securities that we think offer the best risk/reward basis regardless of the domicile.

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I'll do another quick question on that topic because there's a question, "How do you perceive value in the Japanese market versus Europe, and specific opportunities?"

And we do have some Japanese names that we've added to over the past year, including Hoshizaki, Rohto, and we have Nintendo in the portfolio as well. Once again, there's no specific call that we're making but to the extent a market tends to be out of favor for one reason or another, there's a greater likelihood we'll likely be able to find opportunities on a bottoms-up basis, so you could expect to see names begin to populate the portfolio for geographies that do have a large collection of what we believe to be securities that trade below their intrinsic value. But we aren't making any large geographic calls. Brian, I'll turn it—and Steven, back to you.

Mark H.: Thanks, Brian. We've got a few questions on capital gains and we paid attention to it in the letter. So if you'd refer on our website to our Q4 letter, towards the latter part of it, you will see a couple of paragraphs on how we're viewing capital gains, our attempt to minimize them, and actions being taken. So please refer to the letter and if you still have questions, please follow up with your respective representatives and we will provide more granularity around those questions, so thank you.

Mark: There's a question, "The FPA Crescent team has in the past successfully invested in small and midcap stocks." I'm going to summarize. They haven't done well over the past, you know, few years despite being profitable. What might cause small and midcap stocks to find favor with investors?

I'll try and keep it light. Effectively, I think AI has been sucking the oxygen out of the room and so, to the extent you're not involved in AI, you probably have not been getting a lot of love over the past 12-24 months. But we still think there's excellent opportunities to find nice small SMID franchises that often compete on a global basis with market leadership positions, high return on capital, excellent stewards of capital. We can't tell you when or why the market may begin to recognize that.

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And the joke I was going to mention, I was chatting to Brian yesterday for a moment and we said the AI stocks, some of them sometimes might be down a bit. There's stuff that could be disintermediated, you know, is down a bit due to fears of AI and then a popular running shoes company was down because AI doesn't wear running shoes. So you've got to be picky about where you choose to invest these days. That was a joke. Back to you guys.

Brian: [Please see slide 8] Mark, the only thing I would add to what you said is that we generally don't seek to answer the question of why will this company or this series of investments start to work or start to come into favor. If we, sort of, there's a long history of operating and the lived experience is that if you get the business directionally correct and the math makes sense and is cheap or appropriate, it all takes care of itself in time. It might take care of itself sooner or later. You have to be willing to be a bit patient. But we don't sort of try to explain to ourselves why this or that will go from out of favor to in-favor. We just accept and are grateful to occasionally get opportunities that we think will make sense and work mathematically over 5-10 years.

Steven: If nothing was out of favor, we would have less opportunity to no opportunity.

Mark: There's a question about a recent purchase that I will loosely define as a turnaround. I think we're going to dodge it just because we've been in the market on the name as of late, despite it being a disclosed holding. So we'll pass on that one.

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Mark H.: Well, I think that comes to the end of the pre-submitted and the live questions for today's webcast. Just confirming. Yes, I think so. So to all who've listened and to those who will dial in on future, on the downloads, thank you for listening and paying attention to our FPA Crescent's Fourth Quarter 2025 Webcast. We'll now turn it over to the system moderator for closing comments and disclosures. Thank you all.

Moderator: [Please Important Disclosures – Slides 23-27] 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.

We do want to make sure you understand that the views expressed on these calls 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.

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

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