

# 1Q 2026 FPA New Income Fund (FNI) and FPA Flexible Fixed Income Fund (FFI) Webcast



April 28, 2026

*Note: Items in brackets [ ] are meant to be clarifying statements but are not part of the actual audio recording of the webcast*

*This transcript must be read in conjunction with the corresponding webcast slides, posted on fpa.com. The webcast slide page numbers are referenced below. Please also reference the Important Disclosures at the end of this transcript and throughout and at the end of the webcast presentation.*

**You should consider FPA New Income Fund (“FNI”) and/or FPA Flexible Fixed Income Fund (“FFI”) (each a “Fund”, and collectively the “Funds”) investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details each Fund's objective and policies and other matters of interest to the prospective investor. Please read the Prospectus carefully before investing.**

**This transcript must be preceded or accompanied by a prospectus for the Funds. The prospectus for FNI dated January 31, 2026 can be accessed at: <https://fpa.com/resources/>. The prospectus for FFI dated April 30, 2025 can be accessed at: <https://fpa.com/resources/>. The most current prospectus can always be obtained by visiting the website at <https://fpa.com/resources/>, by calling toll-free, 1-800-982-4372, or by contacting each Fund in writing.**

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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 Kristina Surkova. Kristina, the floor is yours.

Kristina: Good afternoon and thank you for joining us today. We would like to welcome you to FPA New Income and FPA Flexible Fixed Income Fund First Quarter 2026 Webcast. My name is Kristina Surkova and I am relationship manager for the funds.

The audio, transcript, and visual replay of today's webcast will be made available on our website FPA.com.

In just a moment, you will hear from portfolio manager Abhi Patwardhan and members of the Fixed Income investment team. Abhi Patwardhan is a partner at FPA and has been with the firm since 2010. He has been a portfolio manager for FPA New Income since November 2015 and has served as portfolio manager for FPA Flexible Fixed Income Fund since its inception in December 2018.

As part of today's agenda, Abhi will discuss the highlights for both funds, provide commentary on the market, review performance and portfolio activity, and then open it up to question and answers.

A couple of quick announcements before we begin. In case you hear some background noise, there is construction around our building and unfortunately we could not foresee that. So we apologize in advance.

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[Please see slide 2] Additionally, we were honored to have been nominated for the 2026 US Morningstar Awards for Investing Excellence, Exemplary Stewardship Award alongside industry peers Pimco and Vanguard. More details about the nomination can be found on our website under the News section.<sup>1</sup>

[Please see slide 3] Also, please save the date for our upcoming Investor Day scheduled for Wednesday, October 21 and Thursday, October 22 in Santa Monica, California. We plan it to be a two-day in-depth look at our strategies, perspectives, and people. A formal invitation with the agenda and RSVP details will be sent to all our webcast attendees.

[Please see slide 4-5 for the average annual total returns through the most recent quarter.] Now I'm going to turn it over to Abhi.

Abhijeet: [Please see slide 6] Thank you, Kristina. Thank you, everyone, for joining us today and thank you in advance for your time.

Let's begin with an overview of the two funds we are discussing today, FPA New Income and Flexible Fixed Income. Both funds use the same bottom-up absolute value investment approach but differ in their potential credit exposure and return objectives.

FPA New Income, shown in the middle, is a short-term, largely investment grade bond fund which has to have at least 75% of its assets in investments rated single-A or higher, and can have 0% to 25% of its assets in investments rated BBB or lower. We refer to these BBB or lower investments as credit. FPA New Income seeks positive returns over rolling 12-month periods, and long-term real returns of CPI plus 100 basis points over rolling 5-year periods.

FPA Flexible Fixed Income, shown on the right, is a non-traditional bond fund that has to have at least 25% of its assets in investments rated single-A or higher, and can have 0% to 75% of its

<sup>1</sup> The 2026 US Morningstar Awards for Investing Excellence recognize portfolio managers and asset management firms that demonstrate excellent investment skill, the courage to differ from the consensus to benefit investors, and a commitment to aligning their interests with those of their investors. Morningstar's manager research analysts conduct in-depth qualitative analyses to select nominees and, subsequently, vote to determine the award winner. Morningstar presents the Exemplary Stewardship Award to an asset manager that has shown an unwavering focus on serving the best interests of investors. To qualify for the award, the firm must have received a Parent Pillar rating of High or Above Average. The Parent Pillar rating measures the quality of the firm's care of investors' capital. The firm must demonstrate an investor-focused corporate culture and an alignment of interests between investors and the people who control the destiny of the investment strategies.

assets in investments rated BBB or lower. FPA Flexible Fixed Income seeks positive returns over rolling 3-year periods, and long-term real returns of CPI plus 200 basis points over rolling 5-year periods.

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For both of these funds, the exposure to lower-rated investments will be a function of our bottom-up investment process and market prices.

Shown on the left is the FPA Short Duration Government ETF. We will not discuss that fund in detail today but, in short, it actively manages the duration of a portfolio of Treasuries. The duration is managed using the 100-basis point duration test that we'll cover today. For more information about this ETF, please visit our website.

[Please see slide 7] This is a summary of the two funds as of March 31. Shown at the top, FPA New Income had a 4.2% yield-to-worst and a 3.3 year duration. New Income's credit exposure, that is the exposure to investments rated BBB or lower, was just 3%. Shown at the bottom, FPA Flexible Fixed Income had a 4.3% yield-to-worst and a 3.5 year duration, with a 4% credit exposure.

Despite ostensibly being a credit-oriented fund, Flexible Fixed Income has a very similar profile to New Income, its higher-quality sibling. This is expected. Since we launched Flexible Fixed Income over 7 years ago, we have told investors that they should expect Flexible Fixed Income to have a different profile than New Income when markets are attractively priced. On the other hand, when markets are expensive like they are today, investors should expect Flexible Fixed Income and New Income to have similar profiles. The reason that we expect Flexible Fixed Income to diverge from and converge toward New Income is that debt markets are episodic. They go through periods of unattractiveness interspersed with periods of attractiveness. Because we are absolute value investors, that means naturally that the credit exposure in Flexible Fixed Income will ebb and flow as markets move from expensive to attractive and back to expensive.

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[Please see slide 8] With that background, today we'll explain why these funds are positioned this way. The short answer is that spreads are still low and rates are still high. In response, our investment activity has leaned toward very high-quality, long-duration bonds. We're happy to buy anything else if the price is attractive but, aside from a few situations, we haven't seen much, particularly in credit where the price is attractive.

[Please see slide 9] In the past, we had started this section with a slide that says "observations," set against a background of dark, cloudy skies. That wasn't because we were pessimistic. Well, maybe some of us are. But more so, it was a reminder that we can't see the future clearly. So here we go. This is what we saw over the past three months.

[Please see slide 10] On February 28, the US attacked Iran but up until then, the bond market had been expecting the Fed to cut rates. The war changed those expectations. The reduction in the supply of oil and other commodities used in products throughout the world led to higher prices and

turned the market's focus to inflation. That drove expectations of fewer rate cuts as the market expected the Fed to have to run a tighter policy to combat inflation.

We can see that change in expectations on this chart. This chart shows the cumulative change in the Fed funds rate expected over the course of 2026. Market pricing showed 60 basis points of rate cuts in 2026 in the first several weeks of the quarter, shifting to zero cuts after February 28.

[Please see slide 11] But it was not a straight path toward higher rates. This chart shows yields on 2-, 3- and 5-year Treasuries, and we can see the increase in yields after February 28 toward the right. Volatility picked up as the market tried to digest every tweet and every headline and what it meant for how long the war would last.

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The general pattern that we could see is that whenever news came out that suggested the war would be brief, rates rallied because that meant higher inflation might not embed. It might be more temporary. Conversely, news suggesting that the war could go on for a while led to higher rates.

Then, towards the end of March, a narrative emerged that inflation could be destructive to aggregate demand and induce a recession, which might mean lower rates. That may explain the downward move on the far right of this chart.

[Please see slide 12] And there's precedent for that to happen. This chart shows that the Fed has historically cut rates in recessions that were preceded by higher oil prices. Said another way, higher oil prices and the inflation they may cause does not preclude lower rates.

It's not clear to us what will happen. We say that a lot. We don't know what will happen because we are not in the forecasting business. That's a tough way to make a living, but it's particularly tough these days because the war has a role in how the macro economy evolves, and we don't pretend to know how the war will play out and what the outcome looks like. I'm not sure anyone can know that with conviction. What is clear to us is that we will not make macroeconomic bets, which these days can amount to making bets on the outcome of the war.

[Please see slide 13] With the increase in yields after February 28, that left yields 20 to 30 basis points higher for the quarter across short- to intermediate-maturity bonds, as shown here.

[Please see slide 14] Treasury yields remain at 10- to 15-year highs. We continue to use this opportunity to add duration to the portfolio.

[Please see slide 15] Part of our investment process is assessing risk versus reward with respect to interest rate duration. Duration can be a means to make macroeconomic bets, and fixed income investors have been conditioned to expect returns to rely on macroeconomic bets. Because of that, our conversations with investors about fixed income invariably include questions about the economy and the future direction of interest rates. Our response to those questions is: we don't know.

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This war is a good example of why we say we don't know. The war impacts the macroeconomy. Much like the macroeconomy, the outcome of the war is very difficult to predict. And whatever one's views are, there is a difference between what one thinks should happen and what will happen. Trying to predict the outcome, the timing, the second- and third-order effects like demand destruction, geopolitical impacts that affect the demand for US assets, fiscal impacts—it's a long list of unknowns and the size of that list itself is unknown.

If one were to bet on higher rates by owning short-duration bonds, which could amount to a bet on a longer conflict, and rates then decreased, high single-digit positive returns are potentially lost near term. Alternatively, if one were to bet on lower rates by owning longer-duration bonds, which could amount to a bet on a shorter conflict, and rates then increased, short-term losses are possible.

Since we can't know with conviction the outcome of the war and the impact on rates, rather than make directional bets that can create short-term asymmetric upside versus downside, we seek a better balance between upside versus downside that we believe allows us to meaningfully participate in the returns created by a decrease in rates, while mitigating the drawdown associated with an increase in rates.

Our 100-basis point duration test attempts to achieve this balance by identifying the longest-duration bonds that we expect will produce at least a breakeven return over a 12-month period, assuming a bond's yields will increase by 100 basis points during that period.

The dark blue bars shown here represent Treasury yields at various maturities as of March 31, 2026. The light blue bars show the results of our 100-basis point duration test. Those light blue bars represent the potential short-term downside return for these bonds in a rising interest rate environment.

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For example, the 5-year Treasury, purchased at a 3.94% yield, was expected to return 0.35% over 12 months if its yield increased by 100 basis points from 3.94% to 4.94% during that time. Because the expected short-term downside return was positive, the 5-year Treasury and other bonds with similar duration were candidates for our portfolio. The 7-year Treasury shown on the right was not a candidate for our portfolio at that time because it produced an expected short-term loss.

Our 100-basis point test attempts to build into each of our investments some ability to preserve capital should interest rates rise. There are many reasons that rates could rise. For example, if the war drags on, inflation becomes sticky and rates rise. This test helps mitigate the drawdown that might occur in that scenario.

There are also many reasons rates could decline. For example, if hostilities conclude soon and ships can move freely through the Strait, perhaps rates decline. Our test has been guiding us

toward longer-duration bonds that we think allow us to participate in a meaningful amount of the upside that's available in longer-duration indices like the Aggregate Bond Index.

The yellow bars on this chart show the short-term upside potential if rates decrease by 100 basis points over 12 months. Looking again at the 5-year Treasury, the yellow bar shows that the 5-year Treasury could return 7.7% in a declining rate environment.

Based on where yields have been recently, we find the longer-duration investments identified by our test attractive, and our investment activity has recently been predominantly geared toward such investments. Unfortunately, there's not much else that's attractive these days because spreads remain low, despite the introduction of military conflict into the picture.

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[Please see slide 16] Let's unpack that by first looking at the high yield market. This slide shows the yield and spread on the High Yield Index and the BB component of the index excluding energy. We often look at that BB component as an indicator of high yield market pricing because it gives us a more consistent point of comparison over time. The table at the bottom details the change since the end of December.

Overall, spreads on high yield bonds increased by 57 basis points over the past 3 months to end the quarter at 348 basis points of spread. However, spreads started the year at 292 basis points, which was the 2<sup>nd</sup> percentile of history. A lower percentile indicates a historically more expensive market. So the high yield market got cheaper on a relative basis but the 57-basis point increase in spread merely took the market from the 2<sup>nd</sup> percentile to the 17<sup>th</sup> percentile. In other words, the market went from very expensive to less expensive but still expensive.

Looking at the BB component excluding energy, it's a similar story. Spreads increased by 49 basis points, taking the market to the 32<sup>nd</sup> percentile, so it's cheaper but still not that attractive in our eyes.

The increase in spreads in the grand scheme of things is not significant and, notably, much of that increase happened before the war. The war did not seem to have much of an impact on spreads, and a lot of the increase in spread at the index level was tied to an increase in spread on software-related debt. The table shows that software-related debt increased in spread by 141 basis points, and those spreads represent about 5% of the index.

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[Please see slide 17] Likewise, in the leveraged loan market, shown here, spreads were about 50 basis points higher, with a lot of that increase coming before the war, and a lot of that increase due to software loans, which saw a 230-basis point increase in spread and represented about 14% of the leveraged loan index.

A quick comment about software. The capabilities of artificial intelligence are progressing rapidly. Some software companies may become casualties of this new technology. The fear that every software company and any company peripherally related to software will become obsolete

may create attractive investment opportunities at some point. We have a small exposure to software debt in our portfolios, which leaves us with ample capacity to take advantage of opportunities if and when they arrive. In the meantime, despite our small exposure, the increase in spreads does impact us in the short term. We'll share some details on that in a few minutes.

Getting back to the market observations, these charts are not an investment thesis for us. Rather, they affirm what we see when we look at individual investment opportunities, which is that we generally don't find that we are getting paid enough above lower-risk alternatives to take on a lot of incremental credit risk that comes with owning high yield bonds, leveraged loans, and other lower-rated debt.

[Please see slide 18] It's not surprising to us then to see charts like this next one, which show the extra spread available in the high yield market versus investment grade bonds. We can see towards the right that this extra spread, 149 basis points, is relatively low based on where spreads have been historically. Again, this isn't our—this is not our investment thesis. It's more an indication that we're not hallucinating.

[Please see slide 19] So that explains why we've been deploying capital into investment grade bonds, but low spreads have been a challenge there as well.

This chart shows the yield and spread on the investment grade Aggregate Bond Index. The table at the bottom breaks out some details about the components of the index, and we can see that spreads increased just slightly during the quarter, if at all. And the end result is the same. The year started very expensive and then got slightly less so.

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[Please see slide 20] Moreover, there's not much to be gained by trafficking in the lower realms of investment grade. This chart shows the difference in spread between AAA-rated and BBB-rated bonds. At 82 basis points, the extra spread that you can earn to take on more risk is in historically low territory. Once again, this just affirms what we've been seeing as we look for investment opportunities. We can buy single-A or BBB-rated bonds in esoteric or novel asset classes, or from issuers that are new to the market, and we can get more spread and more yield, but we typically find it's not worth it because we don't think the liquidity will be great, and bonds like that tend to get cheaper faster during market downturns. We are not categorically ruling out these types of investments; they're just not appealing today.

At the moment, we prefer straightforward bonds that we think will have better liquidity, and where we can have more confidence in our credit quality during this time of elevated valuations. If the market sells off, we think we'll be in a good position to take advantage of cheaper opportunities that arise, and we also think we can avoid some drawdown along the way.

[Please see slide 21] We recognize that there may be a cost while we wait for cheaper opportunities to come up, because the bonds we are buying offer less yield than other things out there, but we think this opportunity cost of owning high-quality, liquid bonds is low. And it's not even a given there will be a cost. In fact, history suggests that the cost may be minimal.

This chart shows the excess return on high yield debt over 12 months based on starting spreads. The excess return is the return earned in excess of similar duration Treasuries. This chart says that when the starting spread has been as low as it is today, on average, excess returns have been only 5 basis points over the next 12 months. In other words, on average, high yield has only returned 5 basis points more than Treasuries. That hardly seems to us worth the risk.

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[Please see slide 22] This is a similar chart comparing AAA-rated bonds to BBB-rated bonds. On average, AAA-rated bonds have returned 61 basis points more than BBB-rated bonds over the next 12 months when the starting spread difference between those grades of bonds has been 82 basis points or less, which is where it was at the end of March.

Going back to our comment about markets being episodic, in this period of low spreads, rather than take uncompensated risk, we're inclined to wait until the next episode. To be clear, we're not making a bet and we're not trying to time the market. We're focused on current prices. When will the price be right? I think we'll know it when we see it.

[Please see slide 23] Let's now review the portfolios.

[Please see slide 24] Starting with New Income's return for the quarter. The bottom right of this table shows that New Income returned 0.34% before fees during the quarter.<sup>2</sup>

The largest contributor to performance was agency mortgage pools. The return was driven primarily by interest income and amortization of principal. These pools are held at a discount to par. Monthly amortization of principal at par captures part of that discount and adds to return. Offsetting that, the price on these pools declined due to the increase in rates during the quarter.

The second-largest contributor to performance was cash and equivalents due to interest income.

The third-largest contributor to performance was asset-based securities or ABS backed by equipment, with the return coming from interest income, offset by lower prices induced by rising rates.

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The largest detractor from performance was Treasuries, which are among the longest-duration holdings in the portfolio and the largest holding. The prices on these Treasuries decreased during the quarter due to rising interest rates, and that was only partially offset by interest income.

The second-largest detractor from performance was ABS backed by software loans. These are included in Other ABS toward the top of this table. As alluded to earlier, the spreads on these bonds increased during the quarter, leading to lower prices. That was partially offset by interest income and principal amortization on the below-par dollar price.

<sup>2</sup> Please see slide 4 of the FPA New Income Fund and FPA Flexible Fixed Income Fund Webcast Presentation 2026-03 for net performance of the FPA New Income Fund ("FPNIX"). During Q1 2026, FPNIX returned 0.17% net of all fees and expenses and including the reinvestment of distributions.

The third-largest detractor from performance was nonagency commercial mortgage-backed securities or CMBS, due to lower prices caused by rising interest rates and spreads. That was mostly offset by interest income.

[Please see slide 25] The next slide shows New Income's holdings grouped by sector along with metrics such as yield and duration. At the bottom, we see that yield-to-worst has increased to 4.24% since the end of December due to the rise in benchmark Treasury yields. The duration is slightly longer at 3.3 years.

[Please see slide 26] These pie charts show the portfolio broken down by investment idea. There is a slice of the pie dedicated to each idea that is at least 4% of the portfolio. During the quarter, we did the following. We extended the duration of the existing Treasury holdings. Due to unattractively low spreads, we sold agency mortgage pools that had a weighted average life and duration of 4.1 years and 3.9 years respectively, and reinvested the proceeds into Treasuries that had a duration of 4.4 years. By doing that, we slightly extended the interest rate duration of that capital but removed the spread duration.

We also sold high-quality ABS that had a weighted average life and duration of 1.5 years and 1.4 years respectively, and reinvested the proceeds into Treasuries with a 4.5-year duration.

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On top of that, we bought high-quality bonds, including Treasuries, agency mortgage pools, agency collateralized mortgage obligations, ABS backed by equipment, utility cost recovery or rate reduction bonds, and ABS backed by prime auto loans. On a weighted average basis, those investments had a weighted average life of 4.9 years and a duration of 4.4 years.

We did not make any credit investments during the quarter.

[Please see slide 27] As a result, the credit exposure in New Income decreased. The numbers on this chart show New Income's credit exposure, which is the exposure to investments rated BBB or lower. The credit exposure was 3% of the portfolio as of March 31, which meant that 97% of the portfolio was in a combination of cash, Treasuries, and other highly rated investments.

[Please see slide 28-29] Finally, this chart estimates New Income's return before fees over the next 12 months based on different assumptions about changes in yields. This estimate assumes the same change in yield across the yield curve, and assumes we don't buy or sell anything. Towards the right, the bar above +100 says that New Income could return 1.6% before fees over the next 12 months if the reference yield on every investment in the portfolio increased by 100 basis points. Further to the right, we can see that yields could increase by 150-175 basis points over the next 12 months and New Income could return a breakeven amount before fees. On the left, we see that New Income could return 6.8% before fees over the next 12 months if yields decreased by 100 basis points.

[Please see slide 30] Moving now to Flexible Fixed Income and returns.

[Please see slide 31] The bottom right of this table shows that Flexible Fixed Income returned 0.35% before fees during the quarter.<sup>3</sup>

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The largest and third-largest contributors to performance were agency mortgage pools and nonagency residential mortgage-backed securities or RMBS. In both cases, the return was driven by interest income and recapturing of the discount price via amortization of principal. This was partially offset by lower prices due to the increase in interest rates during the year—sorry, during the quarter.

The second-largest contributor to performance was cash and equivalents due to interest income.

The largest detractor from performance was Treasuries due to lower prices caused by the increase in rates during the quarter, partially offset by interest income.

The second-largest detractor from performance was ABS backed by software loans, which are included within ABS Other towards the top of the table. These bonds decreased in price due to an increase in spread. That price decline was partially offset by interest income and principal amortization recapturing the discount dollar price.

There were other individual bonds that detracted from performance but there were no additional detractors at the sector level.

[Please see slide 32] This table shows Flexible Fixed Income's holdings grouped by sector. The last two rows show that the yield-to-worst increased over the past 3 months to 4.34% and the duration increased to 3.5 years.

[Please see slide 33] These pie charts follow the same format we described a few minutes ago. During the quarter, we did the following in Flexible Fixed Income. We extended the duration of the existing Treasury holdings. We sold agency mortgage pools at unattractively low spreads and reinvested the proceeds into Treasuries. Those pools had a weighted average life and duration of 4.1 years and 3.9 years respectively, and the Treasuries we bought had a weighted average duration of 4.4 years. These transactions slightly extended the interest rate duration of this capital while shedding the spread duration. We also sold high-quality ABS with a weighted average life and duration of 1.5 years and 1.4 years respectively, and reinvested the proceeds into Treasuries with a 4.5-year duration.

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In addition, we bought high-quality bonds, including Treasuries, nonagency RMBS, agency mortgage pools, ABS backed by equipment, agency collateralized mortgage obligations, utility cost recovery or rate reduction bonds, ABS backed by prime quality auto loans, and ABS backed by fiber infrastructure.

<sup>3</sup> Please see slide 5 of the FPA New Income Fund and FPA Flexible Fixed Income Fund Webcast Presentation 2026-03 for net performance of the FPA Flexible Fixed Income Fund ("FPFIX"). During Q1 2026, FPFIX returned 0.18% net of all fees and expenses and including the reinvestment of distributions.

Within the credit part of the portfolio, this BBB or lower, we sold an existing investment where the forward expected return was no longer attractive, and put the proceeds into Treasuries. We also added to an existing investment and initiated two new investments. In total, the dollars deployed did not offset repayments and amortization of existing holdings.

[Please see slide 34] Consequently, the credit exposure declined to 4% of the portfolio, as shown here.

[Please see slide 35-36] Finally, this return simulation follows the same format that we described a few minutes ago. The bar above +100 shows that Flexible Fixed Income could return 1.4% before fees over 12 months if rates rise by 100 basis points during that time. Further to the right, we see that Flexible Fixed Income could produce a breakeven return before fees if rates rise by 125-150 basis points. On the left, we see that this fund could return 7% before fees over 12 months if rates decline by 100 basis points during that time.

[Please see slide 37] That concludes our prepared remarks. We'll move now to Q&A. Before we get to submitted questions, we anticipated that there might be questions about private credit and software in our portfolios. I'll turn it over to Prakash, our Director of Research, who will explain what we own. Prakash?

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Prakash:

[Please see slide 38] Thanks, Abhi. Given headlines about private credit and software, and to address questions that people might have about our exposure, we want to provide some detail on what we own today. The punchline is, we don't own much. We'll first take a step back and make a brief comment on how we've approached private credit and software generally.

First, as we'll show in a minute, the funds' exposure to private credit, and software in particular, is low. That's because spreads for the types of bonds we participate in within the private credit space, namely CLOs, BDCs—which is short for Business Development Company—and ABS tightened significantly over the past few years, and offered very little excess return. We also had some concerns about the amount of capital being raised in the private credit market and thought an excess of capital could lead to lower underwriting standards. This created a situation where the return we deemed appropriate to own these securities was far higher than what the market was offering.

[Please see slide 28] As a result, we largely chose not to participate, sold some exposure, and let existing exposures decline organically.

Second, we don't think all private credit and software is uninvestable. Abhi touched on this in his prepared remarks. We believe manager selection is important in this asset class. Historically, we've invested with managers who have experience through multiple economic cycles, decades of underwriting history, dedicated software investment teams, low historical credit losses, and an investing culture focused on downside [mitigation]. It's why the private credit exposure in the funds today is across just 13 issuers and not several dozen.

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With that as backdrop, let's look at the exposures within the funds, starting with New Income here. At the end of the quarter, New Income had a 5.6% exposure to private credit, mostly through bonds such as CLOs, BDCs and ABS, which are backed by private credit portfolios but are senior in the recovery waterfall, meaning the underlying loan portfolios could experience substantial losses before our bonds are impaired. New Income also had a small 17-basis point exposure to direct private loans.

In terms of software exposure, the software exposure shown here includes everything that's traditional software and anything that's software-adjacent such as payment processing, electronic health records, IT services, advertising technology, digital education content, revenue cycle management, digital supply chain management and more. Essentially, anything where computer code is a component of a product or service we classified it into the software category. We believe this is a conservative approach and likely overestimates the true software exposure. Nevertheless, we want to present a conservative number for this exercise.

We then multiply the software exposure of the loan pools underlying each of the bonds by the weight of that bond in New Income's portfolio to get to the number in the rightmost column of the table presented, which we call Fund Lookthrough Software Exposure. When you add it up, the lookthrough software exposure in New Income was 2.1% at the end of the quarter.

For what it's worth, 100% of the software exposure in New Income is held via investment grade bonds. As a reminder, we don't rely on ratings when making investment decisions; we do our own work to assess credit quality.

We do recognize the concern about AI and its potential impact on software companies. AI is a rapidly evolving technology with potential to disrupt parts of the economy, including software. We believe our software exposure, which is limited, is in bonds which have a margin of safety<sup>4</sup> against future adverse outcomes and are currently offering an appropriate return for the risk we are assuming. We continue to monitor developments with AI and the positions we hold, and will react appropriately if our assessment of risk and/or reward changes.

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Let's now look at the individual exposures. The first row is private credit CLO, which in New Income are all AAA-rated bonds. Those bonds made up 2.8% of the New Income portfolio at the end of the quarter. On a weighted average basis, meaning an average based on the exposure of the individual bonds in the portfolio, the software exposure in the AAA CLOs was 20%. The credit enhancement on these bonds is 51%. This means you could write off all the software loans in those loan pools and still have more than 30 points of cushion against additional losses on those bonds.

You see a similar dynamic in the private credit BDC and fund finance category. That category had a 33% software exposure against 55% credit enhancement. Here again, all the

<sup>4</sup> Bond level credit enhancement is 49% on weighted average basis for the software and software-adjacent bonds, which comprise only 2.1% of the Fund. Additionally, all exposure is via investment grade bonds with highly diversified underlying exposure.

software loans in the underlying loan portfolios could go to zero and you would still have more than 20 points of cushion against additional losses. CLOs, BDCs and fund finance comprise nearly half the lookthrough software exposure within New Income.

Let's look at this another way. The lookthrough software exposure in these asset classes comprised 1% of the New Income portfolio at the end of the quarter. If you assume the non-software loans in the pools don't experience losses dramatically worse than what was experienced in the Great Financial Crisis, you can consider the effect of software exposure through these bonds to be zero, the reason being there's sufficient credit enhancement to withstand 100% losses on the software loans plus a multiple of GFC-level losses on the non-software loans before our bonds are impaired.

The remaining software exposure is in recurring revenue loan asset-backed securities. These bonds have high software concentration within the underlying loan pools but also benefit from significant credit enhancement.<sup>5</sup> Also, even though these bonds are called recurring revenue loan ABS, we'd note that due to seasoning, nearly two-thirds of the collateral underlying the bonds today are to borrowers generating cash flow.

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Typically, these software loans are underwritten to low loan-to-values at origination, lower than traditional private credit cash flow loans. On top, the bonds we own have additional protection via credit enhancement. With the combination of low loan-to-value and credit enhancement, even at historically low software valuations today, we believe we are creating the underlying borrowers through the ABS at approximately 30% loan-to-value. As a result, there is significant room for enterprise value to erode before our bonds are impacted. These bonds have been amortizing and have a weighted average expected remaining life of 1.1 years, which means that we expect the dollar exposure to continue to decline organically over the coming quarters.

Of note, New Income had zero first-loss exposure to software credit. All the software exposure is through bonds with substantial credit enhancement.<sup>6</sup> Further, on average, the software exposure is spread across dozens of individual loans for a given bond, providing ample diversification. In the aggregate, across all bonds, the software exposure is comprised of hundreds of software and software-adjacent loans.

[Please see slide 39] Let's now turn to Flexible Fixed Income. At the end of the quarter, Flexible Fixed Income had a 4.8% exposure to private credit, again mostly through CLOs, BDCs, and ABS which are senior in the recovery waterfall. The Fund also had a small 10-basis point exposure to direct private loans.

The lookthrough software exposure was 2.2% and nearly 70% of that software exposure is via investment grade bonds. The remaining exposure that's sub-investment grade represents only 67 basis points of the portfolio. Here, the software exposure within CLOs, BDCs, and fund finance

<sup>5</sup> 44% credit enhancement.

<sup>6</sup> 49% weighted average credit enhancement.

categories is similarly overcollateralized through credit enhancement and benefit from similar levels of diversification.

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0.3% of the portfolio at the end of the quarter was in a secured public high yield bond in a software-adjacent category. This particular company does not sell traditional subscription software but uses digital tools for a portion of its business. This investment opportunity surfaced because the market believed AI would replace the company's products and services, and the bond sold off. Interestingly, a few weeks ago, this company was recognized by a major industry publication as the best AI provider in the marketplace. It's one example of how existing companies can adapt in an AI world. Customers may not want to build tools in AI solutions themselves. They may look to existing vendors for AI solutions.

Finally, the recurring revenue loan asset-backed securities have high software concentration, with 36% credit enhancement based on weighted average exposure. Here as well, we believe we are creating the underlying borrowers through these bonds at close to 30% loan-to-value. These bonds have been amortizing and have a weighted average expected remaining life of 1.4 years, which means the dollar exposure is expected to continue to decline over the coming quarters.

In summary, the exposure in both funds to private credit is limited, and the software exposure is small. The exposures the funds do have are well-protected through credit enhancement, underlying loan diversity, limited duration, and manager quality.

With that, I'll turn the call back over to Abhi and Kristina for further comments or questions.

Abhijeet:

[Please see slide 37] Thank you, Prakash. We received a few questions in advance. The first question is, **"I've been hearing about capacity concerns. Can you elaborate as to what type of trades and/or allocations are more sensitive to size or have to be passed up on due to the size of the fund?"**

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So to set the table, this is what we wrote in our quarterly letter at the end of 2025. "Recently, we have seen meaningful asset growth in FPA New Income and FPA Flexible Fixed Income. While absolute market yields are attractive, credit spreads have compressed to historically low levels, thereby making the opportunity set less attractive. Though we believe that both funds have significant additional capacity, absent any changes in the market, we are getting closer to capacity. Both funds remain open for now but in the interests of optimizing returns for our existing investors, we have proactively decided to be more selective in marketing to new investors in the fund and are no longer actively seeking new institutional separate account relationships."

What we were and are still saying is that capacity should be a function of opportunity set. When the world is replete with great opportunities then we have lots of capacity. When there are limited opportunities then we have less capacity.

There's currently not a lot of opportunity because spreads are tight. The question asks about types of trades and/or allocations, and it's not so much a question of the dollar amount of bonds available to buy. It's more so a question of the price at which bonds are available. We have some investments in the portfolio that are harder to source these days, and we're not inclined to pay an exorbitant price just to get more of those bonds. If someone else wants to do that then we're a seller. In fact, we discussed today that we sold a bunch of agency mortgages that we had previously bought at attractive levels.

Lately, a large portion of inflows has been going into Treasuries, which have no spread, or other highly rated investments that have spread but relatively low spread. If you're already an investor in our funds, you don't love that because that's diluting your returns. I don't love that. I am an investor in our funds, and so are my colleagues, so we're all aligned. Job number one is to look out for the investors that we have. That's why we made those comments about capacity. We're just trying to look out for our investors.

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We recognize that we're an outlier because it's uncommon for bond managers to limit capacity. But if you take every dollar you can get, that limits your ability to be discerning, to turn things down, to say no to unattractive opportunities. We don't want to be in a position where the asset size is working against returns instead of for returns. That probably has a lot to do with why FPA was nominated for Morningstar's stewardship award.

The other question that we received is, **"Are the RMBS and CMBS markets overall still the most attractive from a risk/reward perspective?"**

Thanks for the question. Please refer back to the list of investment activity that we described today. That list is also available in our materials on our website. That's the best indication of what we found attractive over the past few months.

And then finally, the last question we received is, **"Now that Warsh appears to be a shoo-in, how is he going to shrink the Fed's balance sheet without driving long-term interest rates higher, regardless of what they decide to do with the overnight rate?"**

Frankly, we wonder the same thing. We would think that, in a vacuum, less demand for Treasuries and mortgages would lead to higher yields. But the reality is, the market doesn't operate in a vacuum so it depends on what else the Fed is doing and what else is going on in the world. It's hard to say which direction rates will go.

Kristina: Thank you, Abhi. These are all questions we received for this webcast. We want to thank everyone for listening to FPA New Income and FPA Flexible Fixed Income First Quarter 2026 Webcast. We now turn it over to the system moderator for closing comments and disclosures.

(00:44:00)

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.

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](mailto: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 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.

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

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