Q1 2024 FPA Crescent Fund (FPACX) Webcast
April 25, 2024

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(00:00:00)

Moderator: Hello and welcome to today's webcast. My name is Sara and I will be your event specialist. Please note that today's webcast is being recorded.

During the presentation, we will have a question and answer session. You can ask text questions at any time by locating the Q&A box on the left side of your screen, type your question, and click Enter to submit. If you are experiencing technical issues, as a best practice, we suggest you first refresh your browser.

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 and thank you for joining us today. We would like to welcome you to FPA Crescent's first quarter webcast. My name is Ryan Leggio. I'm a partner here at FPA and lead client relations.

The slides, audio, visual replay, and transcript of today's webcast will be available on our website FPA.com in the coming week or so.

Momentarily, you will hear from Steven Romick, Brian Selmo and Mark Landecker, the portfolio managers of our Contrarian Value strategy, which includes the FPA Crescent Fund.

Steven has managed the FPA Crescent Fund since its inception in 1993, with Brian and Mark joining Steven as portfolio managers in June of 2013.

Before we move to the webcast, for those of you in the Midwest or who would like an excuse to get to Chicago this time of year, we want to bring your attention to the upcoming Investor Day in Chicago on May 21st and May 22nd. If you are on our distribution list, you should have received a formal invitation in March, with a reminder email that went out, I believe, yesterday. If you did not receive this, please check the homepage of our website for details regarding registration, or reach out to crm@fpa.com with any questions.

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

(00:02:09)

Steven: [The following information and data is as of March 31, 2024 unless otherwise noted] Well, it looks like we're going to have a lot of time permitting since there are no live questions that have come across the transom, so hopefully that's a testament to our great communication here before. But the pre-submitted questions we're going to address right now.

"We've been talking about federal debt level for ten-plus years now but it hasn't seemed to matter. Do you see it as a concern?"

Well, high debt levels—whether it be federal, corporate, or individual—are always a potential concern. Knowing how much of a problem they might be or when they might be requires an understanding of the economy's future behavior. We don't have the necessary economic forecasting capabilities to offer a good answer. A strong economy can support more debt, while a weak economy can support less. Stating the obvious of course.

Next question. "Where are we with rate cuts? Is FPA maintaining a hold on purchasing new positions at this time, with inflated markets?"

One should not depend on Brian, Mark, and myself knowing what the Fed will do. Many thought rates would be lower for longer, yet here we are. It's like a batter who doesn't know what pitch will be thrown. However, we have been pretty good at determining which pitches we'd like to swing at. While there may not be as many fat pitches today, we certainly aren't on a buyer strike. We find there is always an attractive risk/reward situation out there somewhere.

"Do you view fixed income holding as long-term holdings or as short-term temporary holdings?"

Since we don't know, as I said earlier, where rates might go, we avoid making fixed income investments with a low yield and a long duration. We'd rather accept the credit risk of higher-yielding bonds with near- to medium-term maturities. High yield opportunities come episodically, often part and parcel with a weakening economy. [We believe] low yields and poor covenants offer a poor setup today, thus [the Fund] has only limited exposure.

(00:04:10)

The HYG, which is the high yield ETF, has a current yield of 7.5%. That's only 2.8% better than higher credit quality and more tax-efficient 5-year US Treasury notes.[1] And, too many of these high yield bonds were issued without the protections we would like in the event of a restructuring or bankruptcy. The borrower today has more latitude than we would prefer. As a lender, it's important that we have a clear path to the collateral when things go awry. Therefore, our high yield exposure is a negligible 3%, far lower than our historical average. And as I said, since these opportunities do come episodically, we like to think that we are ready and waiting for the next episode.

"The Fund has ten stock positions as of the end of the last year that each make up less than a half a percent of the portfolio. What's the purpose of holding such small portions, since the odds of any such minuscule position of moving the needle is slim to none?"

And that's really a very valid point; we agree. It's small positions, [that we expect] won't ever have much of an impact on the portfolio. We target more significant positions. A more minor position in Crescent often results from being built to something more—it's in the process of being built to something more substantial; or, conversely, a larger investment that's in the process of being sold down. Sometimes it's a function of a position being part of a basket. Other times, it might be an investment with a lot of asymmetry where there is too much downside for us to be comfortable having a significant stake but maybe there could be an upside of 5 or even 10 times.[2]

[1] iShares iBoxx $ High Yield Corporate Bond ETF (ARCX: HYG). Past performance is not indicative, nor is it a guarantee, of future results.
[2] References to individual securities or sectors should not be construed as a recommendation by the Fund, the portfolio managers, the Adviser, or the distributor to purchase or sell such securities or invest in such sectors, and any information provided is not a sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the security or sectors examples discussed.

That is the end of the prepared remarks. Any questions that we don't address online are questions that are already addressed in the—in our quarterly letter that's on the website already, right, Ryan?

(00:06:10)

Ryan: Yes.

Steven: Okay. And, you know, when questions get asked—there's a question about performance drivers in the quarter, and one of the things we really—we really focus in our quarterly reports and commentaries on showing what's happened over the trailing 12 months because there's so much noise that happens in any given quarter. So that's what we've preferred to anchor to and have you focus on, which is why our shareholder commentaries reflect that.

Ryan: That's right. It's in our shareholder commentary, which is on our website, and the portfolio review document for the first quarter, which is also on our website, which shows both the trailing quarter and trailing 12 months that Steven referenced.

Steven: We have company, you know, specific questions and sometimes when they come through, and there's a couple on the page, I don't want somebody to feel that their question is not being answered, even while we're not answering it. But in fact, if there's a company that we're in the process of transacting or considering transacting, we studiously avoid, you know, speaking to it. So please don't, you know, feel like we're ignoring a question that was asked for any reason but that.

Ryan: Yes.

Steven: **There's a question like, "What new positions are you most excited about?" and you know, maybe Mark or Brian could chime in.**

We're not—look, our new position, the newer positions are smaller and we generally aren't chatting about those because we hope to be building those.

Brian: There's a question that will tie into some other things. There's a broad—this is Brian. There's a broad question that you seem to be holding—and this ties into another question about why didn't we sell a name. **"You seem like you're holding some higher valuation stocks, including a number of internet platform companies, if they are high quality. Has this been an intentional shift, sacrifice some valuations for quality?"**

(00:08:18)

I think the short answer to this is yes. The longer answer maybe we'll give you in terms of over the course of the last year, you know, if you maybe rewind 18 months, 2022 was a pretty tough year, particularly for some of the internet platform companies and maybe some other quality businesses. We bought some new names that year. We also added some existing positions. Some of those names did very well, along with, I think, a lot of the market in the fourth quarter of last year. And so, you know, I would say valuations from our perspective are more full, and I think we are of the view that we would like to, in times when we think valuations are a little bit more full, you know, reduce or even outright sell businesses that we think are more average or lower quality, and probably, in an effort to maintain some level of equity exposure, hold on to some businesses that may be a little bit more expensive but for which we have maybe greater expectations or hopes for their future and think are higher quality.

And so the way I would sum that up is saying that the portfolio, while it is less invested than it was at the end of 2022, there's probably greater valuation risk within the equity exposure than existed at that time.[3]

And so I think that if you then zoom out and think about the total portfolio—including the cash, including maybe some, you know, oddball things like ships and debt—you know, we think that the risk profile is probably still consistent with, you know, our mandate, equity-like returns with less risk over time, and not exposing the portfolio to sort of going off a cliff, whether it's on, you know, business quality, cyclicality, leverage, or valuation risk.[4]

(00:10:13)

There's a question, "Any further opportunities in real estate broadly?"

I'll just quickly say we're not buying anything there right now, but we will kick things around and it's more interesting, again broadly, than it was a year or two, maybe two years ago.

Steven: And that's true of both equity and debt. You know, we're looking, if we had a—we have a shopping list and we're looking at different, in different—at different equities and different debt instruments, but there's nothing that, as to Brian's point, that's current.

Brian: So I'm going to use this question, I don't—I got to check my own device to see if this is true but someone tells me that, "Google is up 14% after hours." That appears to be true.

I think that the reason I'll call this out is so you—people will also probably notice that Meta was down quite a bit after hours and during hours today. We haven't talked

[3] Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. Portfolio composition will change due to ongoing management of the Fund.
[4] The portfolio managers' opinions about the intrinsic worth or creditworthiness of a company or security may be incorrect and may not make timely purchases or sales of securities for the Fund, the Fund's investment objective may not be achieved.

about it on these calls but I think that in other settings I've mentioned to people that it's kind of incredible—and this was, if you, if everyone remembers at the end of last year, so for, in the beginning of the first quarter in this year, when Meta announced, I think its stock went up 30% or you know, maybe close to $300 billion on the day.[5]

And so, these responses to quarters are kind of new in terms of the magnitude for very large, well-followed companies. I would say that as a general rule, the responses of this magnitude tend to be exaggerated compared to, say, the information importance of an individual quarter for a company's long-term value. I think that we are very hopeful that this will represent a, you know, evolution to a less efficient market that may provide us opportunities both to trim names when they have, you know, perhaps overreactions to positive news, and perhaps acquire positions or add to them when they have what we view as overreactions to somewhat benign or less impactful but perceived negative news.

(00:12:18)

Steven: **You know, again, I'm repeating, you know, something I've said. Like as I said in the—with respect to questions around interest rates, we don't know what interest rates will do. We don't know what the Fed's going to do. We don't know what central banks are going to do. And that will speak to one of the questions, you know, that are up there as we ask what central banks might do with respect to certain, you know, asset purchases.**

Mark: **[Has you exposure to international equities increased over the years?] And there's a question,—to respond to it, our allocation to international domiciled businesses has increased over the last number of years.** There's slides on our website that depict that. But, importantly, we don't seek to have any particular allocation based on domicile.

[5] February 2, 2024

We care a lot about where the earnings and revenues come from, and you know, we want to be in businesses that have, you know, favorable exposure to growth markets. But the domicile is really just a function of where we think things are where we're finding opportunities.

Steven: I think these—you know, the questions that—we've answered the questions that, you know, that were sent in advance. So we've answered the questions that we felt comfortable and capable answering as they've come over the transom, and you know, speaking to those companies that we own, that we know well, as opposed to those that we don't.

(00:14:07)

And if there's a question that you would like answered and it wasn't addressed on the call, please reach out to Ryan and you know, he can put you—he can possibly answer it directly; if not, you know, put you in touch with me, you know, offline. So I'm going to turn it back to Ryan and thank you, everybody, for your time.

Ryan: Thanks, Steve, Mark, and Brian, and thank you for listening to our webcast today. As Steven mentioned, if there is a question that you would like answered or something we missed or you'd like more on a question that they did answer, please feel free to reach out to me, your relationship representative, or just email our general mailbox crm@fpa.com.

Thanks for listening to the FPA Crescent's first quarter webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: Thank you for participating 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 within a few weeks at FPA.com. We urge you to visit the website for additional information about the funds, 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.

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We hope that our quarterly commentaries, webcasts, and special commentaries will 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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