

Q3 2024 FPA Crescent Fund (FPACX) Webcast October 30th, 2024

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Many of the statements contained herein reflect the opinions and views of the portfolio managers as of the date written, are subject to change without notice, and may be forward-looking and/or based on current expectations, projections, and/or information currently available. Such information may not be accurate over the long-term. These views may differ from other portfolio managers and analysts of the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice.

(00:00:00)

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 questions in the questions and answers panel and click New Question to submit. If you would like to view the presentation in a full-screen view, click the corner of the slides panel to drag and resize to best fit your view. To restore the panels to their original view, click the Restore icon from the icons on the right side of the screen. And finally, should you need technical assistance, as a best practice, we suggest you first refresh your browser. If that does not resolve the issue, please submit your issue in our question and answer panel and someone will assist you.

It is now my pleasure to turn today's program over to Ryan Leggio. Ryan, the floor is yours.

Ryan: Thank you. Good afternoon and thank you, everyone, for joining us today. We'd like to welcome you to FPA Crescent's third 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](https://fpa.com) in the coming week or so.

You will hear from Steven Romick, Brian Selmo, and Mark Landecker, the portfolio

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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.

Since it's that time of year, we wanted to give a quick update in regards to capital gains estimates. We expect in the next week or two for capital gains estimates to be posted on our website, FPA.com and distributed via email to our general distribution list. And so if you're not signed up to our general distribution list, I would do that today, and you will get those estimates as soon as they come out.

(00:02:15)

[Please see slide 2] We include longer-term performance here for disclosure purposes.

Before I turn it over to Steven, I want to remind everyone that our Q1 and Q3 webcasts are Q&A only. We will first review the pre-submitted questions and then go on to the live ones as time permits. Steven, over to you.

Steven:

[Please see slide 3] Thanks, Ryan. We appreciate you taking the time to join us for today's Q&A session. As a reminder, we won't be discussing companies where we are currently engaged in transacting, whether it be a buy or sell, or those positions that are so small as to not be relevant to Crescent's performance. We also won't be speaking to companies not in the portfolio and to those of which we have no opinion, including macro-related questions.

First question was: "Are you looking to position the portfolio differently depending upon election results?"

Well, politicians often say they want to do X or maybe they want to do Y, then when they're elected, they frequently change their minds and do Z. Or they might try to accomplish X, only to encounter opposition that prevents them from delivering on their promise. Positioning the portfolio to anticipate what an elected official might do goes in our "too hard to successfully execute" bucket.

"If you had a chance to listen to Professor—" I'm going to mispronounce his name, Damodar—how do you pronounce it, Ryan?

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Ryan: Thanks, Steve. Damodaran?

Steve: **—Damodaran, I was wondering if you have any comments since he mentioned that value investors are not flexible, among other things?”**

I don't think rigidity is a domain of just value investors. It can be as accurate of growth investors as much as it can be the case for people from all walks of life—politicians, doctors, corporate managers, husbands, to name a few. Brian, Mark, and I work to keep challenging ourselves and remain open-minded and flexible as we seek continuous improvement. To paraphrase the late Charlie Munger, we'd like twenty years of experience, not one year repeated twenty times. I talk a little bit about my own evolution as a value investor in a chapter in the recent seventh edition of Graham and Dodd's value investing tome *Security Analysis*.

(00:04:26)

“You mention in the past that the team doesn't envision buying gold. I was wondering about your thoughts on commodities.”

We have invested in commodity-centered companies' debt and equity over the decades. When we engage, however, we want to be comfortable with a company's prospects without making grand assumptions about what a specific commodity price might do over time. You will therefore often see exposure to such businesses occur when the pricing of a given commodity is on the low side. This has allowed us to gain entry at a reasonable price to Alcoa when aluminum prices were low, and to Glencore when the larger commodity complex didn't anticipate higher rates of demand and inflation. You should expect more of the same type of leaning into weakness in the future as you've come to expect from the past.¹

“I was curious which podcasts the teams listen—the team listens to?”

I mean, there's a lot of great investing podcasts, including *Acquired*, *Business Breakdowns*,

¹ The company information discussed herein is not a recommendation for a specific security or sector and these securities/sectors may not be in the Fund at the time you receive this report. The information provided does not reflect all positions purchased, sold or recommended by FPA. The portfolio holdings as of the most recent quarter-end may be obtained at fpa.com. Portfolio composition will change due to ongoing management of the Fund. Past performance is no guarantee, nor is it indicative, of future results.

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The Art of Compounding, Invest Like the Best, and Founders to name a few. While I assume your question is specific to investing, I'm also a fan of The Rest is History and A History of Rock Music in 500 Songs. I'm going to turn it over to Mark to address a couple of questions. Mark?

Mark: Thanks, Steven. The first question was: **“How do you factor in the rise of GLP1s—those would be drugs like Ozempic as an example—for a consumer company such as Heineken in terms of potential reduction in future revenue growth due to this—yes, no, maybe? Just curious as to your thoughts.”**

(00:06:03)

So, Heineken is present in developed markets and, as you may know, is the number one brewer in Europe. However, the organization actually generates more than half their revenue in emerging markets and has relatively modest exposure to the United States. We point this out as not only is the propensity to use GLP1s lower in emerging markets than it is in developed markets due to the not-insignificant expense of taking the drug, it's also important to note that the obesity rate of the United States is not indicative of that experienced across the broader Heineken footprint.

So just as an example, Heineken enjoys number one market positions in Vietnam, Indonesia, Nigeria, India, Ethiopia—all large populations of more than 100 million people each that will be drivers of Heineken's growth for decades to come. But importantly, all of these countries have obesity rates for adults in the single-digit percentage versus 40%-plus in the United States.²

Now, we'd also add that Heineken has focused their portfolio to win based on the philosophy of value rather than volume, and this is illustrated by Heineken generating more than 40% of their revenue from premium products. Moreover, over the last 20 years, premium beer has grown two times faster than mainstream beer, while also having gross profit per hectoliter 50% greater than regular beer.³

Now, in order to remain relevant with or without the presence of GLP1s, the onus is on the

² <https://data.worldobesity.org/rankings/>

³ [Heineken N.V. Investor Presentation](#) – March 2024.

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beer industry overall to innovate and to remain relevant. As it relates to Heineken, we think they're doing a particularly good job in holding up their end of the bargain. They have the number one cider portfolio globally, they have the number one spirit beer brand in Desperado, and they also have the number one nonalcoholic beer globally with Heineken 0.0 that's present in more than 100 countries.

So overall, we have a favorable view of the company, in particular because we think they're well-positioned to grow revenue at a faster rate than the overall beer industry as a whole, not to mention we think the valuation is particularly attractive at this moment.

(00:08:09)

I suppose I'll continue. I'll take the next question, or two we'll combine, that were about Alphabet. The first question was: "Is the team continuing—" actually, we'll take, sorry, I'll jump. **"5% of the portfolio is in Alphabet which faces huge anti-trust actions. Why is it worth the risk?"** And then the second part of another question was: **"Do you have concerns over Justice going after big tech?"**

So, on Alphabet and whether it's worth the risk, we'll start by saying our view is that we don't think we know anything that anyone else does on the topic of antitrust, but we also don't think anyone else knows anything that we don't. Moreover, antitrust risk is not unique to Alphabet as, according to an October 15, 2024 article by Prospect.org, roughly 43% of the S&P 500 index by market cap is under an antitrust lawsuit or investigation, including NVIDIA, Visa, Microsoft, Live Nation, Kroger, and Apple, just to name a few.

Now, one thing we do know with certainty is that the market generally dislikes situations of uncertainty. As for our willingness as a group to embrace uncertainty, there's no guarantee that good returns will follow but we can point to recent history when we were buying Marriott and Bookings during the COVID pandemic when nobody knew when travel would return, or more recently when we accumulated positions in Douglas Emmett and Vornado during Office Armageddon. Stepping back, we buy, hold, or sell positions based on how our estimate of intrinsic value compares to the market value of a company under a variety of scenarios.

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(00:09:50)

In the case of Alphabet specifically, we've actually argued that not only do antitrust concerns help keep a lid on the multiple ascribed to Alphabet's future earnings, we'd also argue it helps to keep expectations regarding forward earnings growth lower rather than higher.

Stepping back, our original purchase of Alphabet took place at a time when the market was concerned about the rise of mobile phones and apps to the detriment of desktop search.⁴ In the decade-plus over which we've owned Alphabet, there have been numerous times where we could have used uncertainty as an excuse to exit the position. But we've tried to remain balanced in how we view the risk/reward during our ownership, over which we've been the beneficiary of Alphabet's earnings growing faster than the S&P 500 overall but without Alphabet's valuation ever getting particularly stretched.

Now, regarding antitrust risk specifically, as recently echoed by company management, the ongoing legal challenges will take years to resolve. During this time, we expect Alphabet to continue to invest in people, infrastructure, and data-intensive applications just as it has in the past. Rather than pontificate on what a breakup would mean, we find solace that within Alphabet, one essentially has three separate businesses that would individually be top 100 companies in the S&P 500 as ranked by revenue, in the form of search, YouTube, and cloud, all of which we view favorably and which we believe would merit higher than market multiples if they were to be forced to operate independently.

Now, looking forward, we see many reasons to continue to be optimistic regarding Alphabet's future, but of course if the facts change, we reserve the right to change our mind and act accordingly. I'll now turn it back.

Brian:

Thanks, Mark, and I'll now—this is Brian—I'll take a couple of questions. **There are questions on Comcast, briefly—"Nearly 3% of the portfolio, it continues to experience cable-cutting, intense competition from other content creators. What's the rationale?" There's**

⁴ The Fund's initial investment in Alphabet was in Q3 2011. Past performance is no guarantee, nor is it indicative, of future results.

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another question: “Comcast’s revenue has been slow for years. Total debt is near \$100 billion.

Can you explain why you hold it?”

(00:12:01)

So I think first it would be helpful to talk through a little bit of what Comcast is and where it generates its free cash flow, as I think looking at it on a consolidated basis can sometimes add to confusion.

So Comcast is a collection, in our minds, of a few different businesses. One is a broadband, converged connectivity business, which is a combination of the cable pipe or wired broadband along with an advantaged wireless offering, and that is a very cost-competitive and—cost-competitive and free cash flow-positive business that has been growing steadily, although slowing recently due to competition over the last number of years. Also, historically within that division was the cable service provider business, which suffers from cord-cutting, which has led to revenue declines, and because most of the costs of the cable channels is passed through to customers, that tends to be a very large revenue contributor but a very small to de minimis, or perhaps even at this point noncontributing from a free cash flow perspective, part of the business.

On the entertainment side, Comcast has the traditional television channels, cable channels, movie business and, importantly, a parks business which is in some ways fed from those entertainment assets. The entertainment content creation and distribution businesses are under significant pressure and when one combines the historic linear assets with the new streaming assets, it results in a very modest net cash contribution to the company. So again, not contributing much to the bottom line when you look at the consolidated numbers. The parks business has been growing rapidly over the last number of years, and the company continues to invest behind it, and we have positive expectations for that business over time.

(00:14:16)

So when we zoom out and look at Comcast, we think that just about all of the free cash flow, and certainly all of the economics from our perspective, are derived from the parks business and the

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converged, cost-competitive and content—or, sorry, and asset-advantaged connected business, connection business. And those businesses, as I mentioned, have been growing over the last few years. And when one looks at whether it's the debt load or the market cap to the free cash flow generated from those businesses, the valuation is quite modest. So Comcast would have, compared to its competitors, the strongest balance sheet in the industry when you are looking across, say, cable companies or telecom companies. And, in terms of valuation, on a free cash flow basis, it is among the lowest at roughly 10 times. Given the strong balance sheet, low valuation, management alignment, commitment to a growing dividend and returning remaining capital to shareholders in buybacks, we think that Comcast has a reasonable chance of providing attractive returns from current levels, and that is why it is a holding.⁵

I'll move on to the next question. **“How would you characterize the risk/reward profile of the Fund's equities holdings at today's P/E relative to history?”**

I think there are a couple of things I would note. Certainly, when securities are higher in price, we tend to think that they are less attractive from a risk/reward perspective. You can see this in the portfolio as over the last number of years we have taken down the net equity exposure, and that includes roughly 500 basis points over the last 12 months. So all of that, to my mind, argues that the portfolio is at no better than an average level of attractiveness, given valuation.

(00:16:25)

But I would caveat that by mentioning that there are a number of things going on under the water level, so the duck may seem fairly calm above water but the legs are paddling furiously. And so there are a number of companies that have gotten to points that we think are less attractive on a risk/reward basis, and those companies have been either sold outright or positions have been reduced in the last 12 months.

⁵ As of 9/30/2024. Source: Bloomberg and company filings. [https://www.cmcsa.com/news-releases/news-release-details/comcast-increases-dividend-and-share-repurchase-authorization-0#:~:text=PHILADELPHIA%20%2D%2D\(BUSINESS%20WIRE\)%2D%2D,an%20annualized%20basis%20for%202024](https://www.cmcsa.com/news-releases/news-release-details/comcast-increases-dividend-and-share-repurchase-authorization-0#:~:text=PHILADELPHIA%20%2D%2D(BUSINESS%20WIRE)%2D%2D,an%20annualized%20basis%20for%202024).

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And I'm going to wrap this a little bit into a couple of questions on where are we finding value and opportunities.

You've actually seen us, you know, buy a number of new companies over the last 6 months, really probably starting in the middle of the summer or so. And so while those positions, or new positions, have not, you know, exceeded or overcome the amount of sales we have done, we do think that, underlying, the portfolio is actually shifting to a fairly attractive position.

And so, I think that we've been active in the market over the last few months on names that, again, someone's asked for where we're finding value. If I were going to say a theme, names that tend to be smaller and midcap in nature, and there we find quite a bit to do in terms of new names and some positions to add to. So I think overall, the portfolio is in fairly decent to attractive position and if valuations on names that we've been buying or some that we have been researching or are close to continue at the current level, or even come in a little bit, I think you would expect or we would expect to see exposure in the portfolio go up.

(00:18:03)

The last question—oh sorry, there's two more questions. Next question is: **“Many of the higher-quality, larger position sizes in Crescent are highly levered to cyclical trends around the consumer ad spending, consumer products, etc. If consumption levels fall because of a number of possible reasons, particularly fiscal cuts, what happens to the fundamentals of those businesses and stock prices? Are you concerned about fiscal spending as a risk to the portfolio?”**

I would say that I assume that this question is referring to Alphabet and Meta, because otherwise I'm not sure that I can identify the, you know, the names being alluded to. I think that at any point in the portfolio, we try to have diversification to various economic, whether they're fiscal, whether they're currency, whether they're interest rates, whether they're geopolitical, but various external drivers or risks, and we seek to manage those risks on a portfolio-wide basis. So, the average holding period over the life of the Fund has been 5 years. In the top ten names, it's around 8

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years. So, if you own businesses over that period of time, you can reasonably expect to face some economic headwinds, and hopefully some tailwinds as well.

And so the portfolio from our perspective, including the names that would potentially have the most exposure to some type of fiscal spending reduction in the United States, should be adequately positioned to weather those types of storms.

The other thing I would point out is that, you know, the businesses that I think are being alluded to are, you know, incredibly global in nature and have a number of different business drivers besides just US consumer spending, although you know, if you were suggesting that US consumer spending or fiscal position would have a more global economic slowdown impact, that could be the thrust of the question as well.⁶

(00:20:13)

Lastly, **“thoughts on the valuation of the broader market?”**

We don't really seek to have meaningful thoughts on the valuation of the broader market, and even the broader market I would say has become very concentrated, right? The top 10 names in the S&P are the largest share of the S&P I think that has—in recorded history.⁷ And so, if you are making a comment on the market, you know, you're sort of making a comment on those 10 companies and you know, the truth is they're wonderful businesses and if they aren't obviously wonderful businesses, they certainly have very robust near-term outlook. And so, I don't have any particular view. I don't know if Steve or Mark do.

I mean, maybe I would say though, just to round it back to an earlier comment, the place we are finding opportunity in the additions to the portfolio are probably outside the companies that are the big drivers of the indexes. So, the new names, if you think about like what we've been buying, they're names that aren't really, you know, big index components, right? So...

⁶ Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. You risk paying more for a security than you received from its sale.

⁷ The top 10's share of the S&P as of 9/30/24 was 35.8%. Source: Factset.

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Steven: And smaller market cap.

Brian: And smaller market caps, yes. And so they would be—

Mark: Maybe outside the—I was going to say, outside the US, Brian?

Brian: And outside the US, yes. Yes, that's right, Mark. And so if you think about sort of the portfolio exposure that is, you know, versus the index, it's looking less and less like—it's never looked a lot like the index, and we don't manage to it certainly, but it's looking less and less like the index over the last 6 months.

Steven: Well, it's never looked like the index.

(00:22:00)

Brian: Right.

Mark: Brian, there's a number of questions on cash that I think we could bundle. I'll present them as effectively saying, **"Is there is a maximum amount of cash that the portfolio would hold?"** **"Have you ever been fully invested?"** **"Rates are coming down. Why are you still holding cash?"** so on and so forth. So why don't I flip that back to you now?

Brian: Sure. Is there a maximum position on cash? There's not a maximum position by some kind of written rule and I'm going to look at Steve now and say you were once 55% cash going into the financial crisis?

Steven: Yes. We were—

Brian: 45?

Steven: Well, we—yes, we were close to 50%.⁸

Brian: Okay, close to 50. So that's been the historic max. The historic min—

Steven: And that was the only time, you know, just speaking pre Mark and Brian, that I actually ever actually had a point of view that the world was a very, very scary place in the context of where companies were valued and the opportunity set. It's just, as Brian was saying earlier, we're just, we're not good at defining what the market's going to do, and usually it just trades in a range, and

⁸ The Crescent Fund's cash position was 50.2% in September 2008..

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sometimes more expensive, sometimes a little less expensive, and it's really episodic as to the opportunities we find by sector, asset class, region, etc. Yes.

Brian: But if you—the way we're thinking about cash is essentially that we don't think about it within sort of a reasonable range, call it, you know, 0% to 40% or something. But at the extremes, we would think about it a couple fold. When cash were building towards that, say, 40% we would start to think that one of the mandates of the Fund, right, keeping ahead of inflation and getting ahead on a real basis might be challenged unless one had a very, very strong view, as Steve mentioned earlier that he had, to the state of markets. And so, while it is not a hard and fast rule, it's certainly not something we aspire to do, meaning have more cash than that. We would aspire to have less cash, but we don't let the cash position drive the investments.

(00:24:00)

So, as I mentioned earlier, there is some, you know, shift or transition going on in the portfolio. It happens that that shift has been a net reduction in exposure over the last 12 months. I can certainly imagine and hope that that shift would, at some point, turn into a net increase in exposure. But what we do try and seek to do is keep a, I'll say, objective mind about where our positions are, where they're valued or the risk of them, and when we think it makes sense to sell something or reduce exposure, we do it, even if we might not have at that exact moment something to buy. And so the cash position will move around, ebb and flow, year to year, based on those decisions rather than a top-down view on cash. Is there a minimum on cash? You know, I think the minimum of the past was 5%? Is that right, Steve? Early 2000s?

Steve: The low. Yes, the low is like the lowest cash ever got in the late Nineties was in the fives.

Brian: Right. So there is a certain, you know, open, there is an open end—Crescent is an open-ended fund so you have to manage flows, and so I think somewhere around 5% is probably the lowest level of cash we have.

Steven: And just as a way just to chime in.

Brian: Sure.

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Steven: That was at a point in time when there was a lot of debt, you know, high yield debt in the portfolio as well.

Brian: There has been, you know, we've gotten this question from institutional clients in the past and as a convenience to them, we started a fully invested fund which is, you know, currently available and it is the larger cap Crescent equities fully invested so it will always have a circa 5% cash position, and that's FPAG.⁹ But I think that wraps up cash.

Steven: And I guess the question was: **"Where are you holding cash as rates come down?"**

(00:26:00)

Brian: Oh, I'm sorry, I didn't see that part. There continues to be some roll-off of Treasuries that we purchased a year or so again. There's commercial paper and there are now shorter-dated Treasuries that cash is rolling into.¹⁰

Steven: I think that's covering all the questions, Brian. I don't think there's anything else we haven't missed. That number 3 is really... It's not really answerable.

Sorry for the pregnant pause. We're just evaluating the last one or two questions that have come over the transom.

Brian: Yes, I think there's more kind of questions on Comcast and its content production. I mean, I think this is an interesting area of exploration, and when we're valuing the company, we just really don't put much, if any, value on the content creation piece of Comcast. And so, you know, we're trusting management to manage that asset in a way that is no worse than zero value is the way I would say it. And so, we are not, yes, going beyond that.

Ryan: Thanks, Brian. We'll pause for 15 seconds just in case there are any last-minute live questions, but we've now answered all the pre-submitted questions and the live questions we've seen. We'll pause for just 15 seconds.

⁹ FPA Global Equity ETF (CBOE: FPAG). The Fund seeks long-term growth of principal and income, for additional information on FPAG see fpag.fpa.com. The FPA Funds are distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212. UMB and FPA are not affiliated.

¹⁰ A full list of the Crescent Fund holdings is provided on slide 5 of the presentation and at fpa.com.

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Steven: And I'd also like to remind people that if a question wasn't answered as robustly as you would have liked or there's follow-up questions, please reach out to Ryan Leggio and he'll make sure that question gets answered.

(00:27:58)

Ryan: Great. We don't see any additional questions so thank you, everyone, for joining us today and for listening to FPA Crescent's third quarter webcast. We'll now turn it over to the system moderator for closing comments and disclosures.

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

[Please see slide 6] 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 see slide 7] 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.

[Please see slide 8] 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

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advice.

(00:30:01)

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Any statistics or market data mentioned during this webcast have been obtained from sources believed to be reliable, but the accuracy and the completeness cannot be guaranteed.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The prospectus details the Fund's investment objective, and policies, risks, charges, and other matters of interest to a prospective investor. Please read the prospectus carefully before investing.

The prospectus may be obtained by visiting the website at FPA.com, by email at crm@fpa.com, tollfree by calling 1-800-982-4372, or by contacting the Fund in writing.

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

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[END FILE]