investors first

Q2 2024 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX) Webcast
August 1, 2024

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 FPNIX and/or FPFIX (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 FPNIX dated April 30, 2024 can be accessed at: https://fpa.com/request-funds-literature. The prospectus for FPFIX dated April 30, 2024 can be accessed at: https://fpa.com/request-funds-literature. The most current prospectus can always be obtained by visiting the website at fpa.com, by calling toll-free, 1-800-982-4372, or by contacting each Fund in writing.

(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 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: [Please see slide 2] 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 Second Quarter 2024 Webcast. My name is Kristina Surkova and I am relationship manager for the funds.

[Please see slide 3] The audio, transcript, and visual replay of today's webcast will be available on our website FPA.com.

[Please see slide 4] 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 the portfolio manager for FPA New Income since November 2015 and has served as portfolio manager for FPA Flexible Fixed Income since its inception in December 2018.

[Please see slide 5] 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. Abhi, over to you now.

(00:02:13)

Abhijeet: [Please see slide 6] Thank you, Kristina. Good afternoon. Thank you to everyone for joining us today.

As background for our comments today, it's helpful to keep in mind that we manage fixed income differently than most other fixed income managers. A lot of other fixed income managers are macro-driven and they try to predict the direction of interest rates or they try to predict which parts of the market will outperform other parts of the market. They make relative value bets. We think that's a tough way to make money with conviction and consistency, so we don't invest that way. We don't try to speculate on which way the market will move. Instead, we look for investments that we believe are compensating us for the risks involved, and we do that with an absolute value perspective.

That means that, while we certainly pay attention to spreads, first and foremost, we consider an investment's yield. We don't believe in focusing on spread alone because returns are measured by counting dollars, and dollars of return derive from yield, not spread. We also don't track an index, and we have a flexible investment mandate, which means that our portfolios can look quite different in comparison to indices or other comparable funds.

The reason is that we only want to own investments where the price compensates for the risks that we see, and we want to avoid everything else. We like to say that we have no interest in owning all of the market's risks all of the time. Rather, we only want to own some of the market's risks some of the time, and only when the price is right.[1]

Finally, we take a long-term view on investing. We are willing to sacrifice potential short-term gains in the interests of better long-term returns.

(00:03:55)

Turning now to our two funds, we'll start on the left with a brief overview of FPA New Income. In the short term, New Income seeks positive absolute returns over rolling 12-month periods, and in the long

[1] There is no guarantee the strategy's investment objective will be achieved or that the strategies employed will be successful. As with any investment, there is always the potential for gain, as well as the possibility of loss.

term seeks positive real returns of CPI plus 100 basis points over rolling 5-year periods. FPA New Income is largely an investment grade or a high-quality fund which has to have at least 75% of its assets in investments rated single-A or higher and can, but does not have to, have 0% to 25% of its portfolio in investments rated BBB or lower. We refer to these BBB or lower holdings as “credit”. The amount of credit that we own is a function of the individual investment opportunities that we see.

FPA Flexible Fixed Income is outlined on the right. Flexible Fixed Income is managed with the same investment philosophy as New Income. The key distinction is that Flexible Fixed Income can, but does not have to, take on more credit exposure. This fund can have up to 75% of its assets in investments rated BBB or lower, and must have at least 25% of its assets in investments rated single-A or higher. Flexible Fixed Income’s higher credit [exposure] capacity is in service of a higher long-term return objective of CPI plus 200 basis points over rolling 5-year periods. To accommodate potentially greater credit exposure, in the short term, Flexible Fixed Income seeks positive absolute returns over rolling 3-year periods.

[Please see slide 7] This is a snapshot of the funds as of June 30. Shown at the top, FPA New Income had a 5.5% yield-to-worst and a duration of 3.2 years, which is a higher yield than the Aggregate Bond Index with less duration than that index, and a higher yield than the 1-3 Year Aggregate Bond Index with more duration than that index.

Shown at the bottom, FPA Flexible Fixed Income had a 6% yield-to-worst and 3.1 year duration, representing a higher yield with less duration than the Universal Bond Index.

(00:05:53)

As an aside, we provide these comparisons to these indices solely to help our investors understand our funds' profile in comparison to the opportunity set, not because we're tracking these indices. Also, the duration of each fund is actively managed, so we purposely have the durations shown here. We'll talk about that more later.

[Please see slide 8] Today we'll cover a couple of topics. First, in early July, we celebrated FPA New Income's 40th anniversary under FPA's management. On our team, we don't spend a lot of time thinking about past results but once we saw what 40 years of disciplined, long term-oriented absolute value investing looks like, well, it was pretty eye-opening in a good way. We'll share more on that later.

Looking ahead, we'll discuss the current market environment and what we're doing in the portfolio. A summary is that market prices didn't change all that much during the quarter, so our view on the opportunity set hasn't changed all that much in the past few months, which is to say that we still think longer-duration, high-quality bonds are attractive and credit—or lower-rated bonds—aren't that attractive.

[Please see slide 9] Before we discuss the present, let's discuss the past. On July 11, we celebrated the 40th anniversary of FPA New Income's management under FPA. We wrote a letter about this milestone, which is available on our website. We encourage everyone to read it to better understand how we invest, but we'll share the highlights here.[2]

First of all, it's rare for a fund to survive for 40 years. Of the [approximately] 286 short-term and intermediate bond funds that are around today, only 12 have been around for 40 years, and we've listed them on this slide.[3] We've also included return data over the past 40

[2] The letter can be found at: https://fpa.com/fpa-new-income-fund-40th-anniversary-1984-2024.

[3] Short-term and Intermediate bond funds refer to Morningstar Categories (i.e., Morningstar U.S. Fund Short-Term Bond and Morningstar U.S. Fund Intermediate Core Bond), and any future references to these terms is in reference to such Morningstar

years. As shown by the Sharpe ratio and Sortino ratio, New Income had the best risk-adjusted returns over the past 40 years in comparison to the other funds on this page and also in comparison to the Aggregate Bond Index. But those class-leading risk-adjusted returns have not come at the expense of making money because on the right, we can see that New Income had among the best annualized returns over the past 40 years.[4]

(00:08:05)

These Sharpe and Sortino ratios and annualized returns do a good job of summarizing the results of 40 years of disciplined, long term-oriented absolute value investing. But what does a day-to-day, year-to-year, and decade-to-decade experience of that style of investing feel like? It's an important question to ask because you can only realize these results if you can live with them.

[Please see slide 10] The return statistics provide a great summary but just like a picture is worth a thousand words, a chart can be worth a thousand return statistics. This chart shows the growth of an investment in

categories. Total number of funds in these categories as of June 30, 2024 was 281 and only includes the oldest share class for each fund in those categories. The 286 funds noted was the total number of funds in these categories (oldest share classes only) as of May 31, 2024.

[4] "Class-leading" is defined in comparison to the 11 Morningstar Short-Term Bonds and Intermediate Core Bonds, excluding FPA New Income, with at least 40 years of history (referred to herein as "Comparable Funds") and the Bloomberg U.S. Aggregate Bond Index. **Past results are no guarantee, nor are the indicative, of future results.**

New Income over the past 40 years, along with the other funds listed on the prior page. This chart shows what 40 years of not just great risk-adjusted return but great risk-adjusted returns paired with competitive total return feels like.

Looking at the dark blue line, we see that from start to finish, New Income ended up neck-and-neck at the front of the pack, but the path to get there was much less volatile along the way, or a smoother ride as we like to say. Now, let's not forget what many of us have lived through over the past 40 years—recessions, market bubbles, wars, a financial crisis, a pandemic, novel monetary policies, the list goes on, and that's just in the US. As far as markets go, we are not on an island so we've also endured turmoil elsewhere in the world.

This chart embodies how we've described our investment approach in the past. It's a marathon, not a sprint. We're not trying to win tomorrow; we're trying to win over time. And the way we've been doing that is utilizing the investment philosophy coined decades ago by Bob Rodriguez, the founding portfolio manager, and that is *winning by not losing*. I encourage everyone to read more about winning by not losing on our website.[5] It's the foundation of how we invest, and it requires a combination of discipline, a focus on absolute value, a long-term view, flexibility, and tolerance for short-term, quote, "underperformance." And we're okay with underperformance because we think that we'll make it up in the end, and the last few years have been a great example of that.

(00:10:12)

I'll wrap this slide up with one other comment. This chart also helps explain my answer to a question that we often get from potential investors, which is how should they use New Income in their portfolio. I always tell people that personally, even though New Income is not a core bond fund, and the same thing applies to Flexible Fixed Income, I use these funds as my only fixed income exposure because I think that our investment approach will leave me wealthier in the long run with less agita along the way. Personally speaking, I think that this chart validates that view.

[Please see slide 11] The absolute value investing style is key because it requires us to be thoughtful about current market prices, and it helps generate the results shown on this slide. This chart shows the time it

[5] Please reference the *FPA New Income Fund 40th Anniversary: 40 Years of Class-Leading Risk-Adjusted Returns* here: https://fpa.com/fpa-new-income-fund-40th-anniversary-1984-2024

took New Income to reach its high-water mark following a drawdown. In other words, how long did it take New Income to reach its highest value over the past 40 years once it came off that high?

As you might expect, the biggest drawdown for the funds and indices shown on this page came as a result of the huge increase in interest rates in 2022. New Income recovered from its drawdown in 1.9 years. In comparison, the average short-term bond fund took 2.3 years. The average intermediate bond fund and Aggregate Bond Index have taken 3.5 years and 3.9 years respectively, and counting. They still haven't reached their high-water mark.[6]

This chart is a good explanation of why we don't chase short-term gains and why it's valuable to have the flexibility to avoid what the rest of the market is doing. Short-term bets can blow up on you and leave you really far behind, sometimes so far behind that it's really hard, if not impossible, to catch up.

(00:11:58)

[6] Drawdown is the loss from a peak to a trough of a portfolio, before a new peak is attained. FPA New Income Fund had a maximum drawdown of -4.54% with a peak date of November 2021 and reached the high-water mark in September 2023; the Morningstar U.S. Fund Short-Term Bond Fund category had maximum drawdown of -7.52% with a peak date of September 2021 and reached high-water mark in January 2024; the Morningstar US Fund Intermediate Core Bond category -17.16% with a peak date in January 2021 and has not recovered to the high-water mark yet; and the Bloomberg U.S. Aggregate Bond Index had maximum drawdown of -18.27% with a peak date of August 2020 and has not recovered to high-water mark yet.

[Please see slide 12] There’s also this result, which shows that *winning by not losing* has resulted in FPA New Income generating positive returns in 97% of rolling 12-month periods over 40 years. Again, think about everything that's happened in the last four decades. Also keep in mind that New Income has only been categorized as a short-term bond fund since 2018. Before that, it was an intermediate bond fund and then a nontraditional bond fund. It might not seem like that big of a deal to generate positive returns 97% of the time when short-term bond funds generated positive returns 93% of the time, but knowing that New Income has had a much bigger investable universe than the average short-term bond fund and knowing that the average short-term bond fund shown here is just the average of the bond funds that have survived each year makes New Income’s accomplishment even more impressive.

[Please see slide 13] And finally, there is this result. Looking at the worst 5-year rolling period over the past 40 years for New Income and these other funds and indices, we see that New Income’s investors have been much better off. We think it’s been a good experience for our investors that they can go through periods of turmoil and come out ahead on the other end of it, and ahead by a meaningful amount versus the alternatives shown here. Again, keep in mind that survivorship bias is making these categories look better than they actually are.

[Please see slide 15] For those who are with us today because they are invested in Flexible Fixed Income, this is all relevant to you because the investment philosophy that propelled New Income over the past 40 years is similarly applied to Flexible Fixed Income. Flexible Fixed Income was launched at the end of 2018, and in the last five and a half years has, incredibly, been through a lot with the pandemic, historically low yields, a historic increase in interest rates, and the worst bond market in generations.

(00:14:00)

Using a similar approach that led to New Income's standout results over 40 years, Flexible Fixed Income has similarly delivered better total returns and attractive risk-adjusted returns in comparison to the average nontraditional bond fund, the [Bloomberg U.S.] Aggregate Bond Index, and the [Bloomberg U.S.] Universal Bond Index, as shown here.

[Please see slide 17] Moving to the present, we'll review what we're seeing these days. Inflation creeps towards the Fed's 2% target. There are a number of ways to measure inflation but, by the measures shown on this chart and others, there has been progress.

[Please see slide 18] But the Fed is waiting for more data before they will cut interest rates, so the market's expectation of when exactly rate cuts will occur has been moving around. That partially explains why risk-free rates rose by 9 to 22 basis points during the quarter. Election uncertainty may also be playing a role.

[Please see slide 19] Zooming out though, on an absolute basis, Treasury yields are still near 15-year highs. This chart shows yields on 2-, 3-, and 5-year Treasuries. We can see on the right that yields remain high in comparison to the last decade or so.

[Please see slide 20] Similarly, yields on investment grade bonds, broadly speaking, are also still at 15-year highs, as shown in blue here, which represents the yield on the [Bloomberg U.S.] Aggregate Bond Index, though spreads, shown in green, are very low. As highlighted on the right, the spread on this index is at the 2nd percentile. The lower the percentile, the more expensive it is.

[Please see slide 21] Based on the absolute level of yields, generally speaking, we still find longer-duration bonds attractive to own.

We define longer-duration based on our duration test. Our duration test identifies the longest bond that we expect will generate at least a breakeven return over 12 months if we assume that the yield on a bond will increase by 100 basis points over that 12-month period. We use this test to determine the duration of the bonds that we buy, and we are consistent about using it, going back to the comments we made earlier about disciplined absolute value investing.

(00:16:06)

This chart shows how the test works. The dark blue bars represent the Treasury yield curve as at the end of June. The green bars show the results of our 100 basis point duration test, which we think about as the short-term downside return.

As an example, if one bought the 5-year Treasury at the end of June at a 4.38% yield and then the yield increased by 100 basis points from 4.38% to 5.38% over 12 months, the expected total return over 12 months would be 0.82%. Because it has a better-than-breakeven short-term downside return, the 5-year Treasury and similar maturity bonds would be candidates for our portfolio. One step to the right, the same analysis applied to the 7-year Treasury would result in an expected loss of minus 0.7% so it would not be a candidate for our portfolio at that time.

We buy bonds that have spread, so there's additional yield above the risk-free Treasury rate, which means that we could buy bonds that are slightly longer than what this Treasury analysis would suggest.

We've been using this test to add duration to the portfolio for the past two and a half years. We think that over the long term, our investors will benefit from earning these yields for multiple years. In the short term, we think that the bonds that we’re buying using our duration test offer some short-term downside protection against rising interest rates.

On the flip side, these longer-duration bonds introduce upside optionality into the portfolio in the event that rates decrease. That upside optionality is shown by the light blue bars. For example, if rates decrease by 100 basis points over 12 months, the 5-year Treasury could generate an 8% total return over 12 months. That upside optionality and the ability to lock in today’s yields are why we are not deploying capital into short-maturity bonds.

(00:17:57)

We can see here that short-maturity bonds would have a higher return in a rising rate environment but they offer less upside if rates decrease, and they have more reinvestment risk. If rates decline and the short-maturity bond matures, we think people will regret not having bought higher-yielding bonds when they had the chance.

[Please see slide 22] We can see here the potential impact of the duration that we've been adding to the portfolio. This chart shows a simulation of the returns on New Income before fees over the next 12 months, assuming that the reference yield on every bond in the portfolio changes by the amount shown on the x-axis. It also assumes that we don't actively manage the portfolio.

For example, the bar above +100 says that if the reference yield on every bond in the portfolio increased by 100 basis points gradually over 12 months, the portfolio could return approximately 2.5% before fees. On the left, we see the upside optionality that we highlighted in the previous slide. If reference rates decreased by 100 basis points over 12 months, New Income could return 7.5% before fees.[7]

[7] **For illustrative purposes only.** There is no guarantee that any such results would be achieved.

[Please see slide 23] This is the same simulation for Flexible Fixed Income. The scenario where reference yields increased by 100 basis points could result in almost a 3% return before fees for Flexible Fixed Income, and the scenario where reference yields decreased by 100 basis points could result in a 7.8% return before fees.[8]

[Please see slide 24] Our absolute value-oriented duration test strives to deliver a consistent risk versus reward with respect to duration that corresponds to current market prices, which is different than other [short-term] bond funds out there which [may be] trying to deliver a consistent duration regardless of price.

As shown here, over the past two and a half years, we have increased the duration of New Income from 1.4 years at the end of 2021 to 3.2 years at the end of June. The average short-term bond fund hasn't changed its duration much in that time even though duration has become dramatically cheaper in the last 2+ years. And of course, the index's duration hasn't changed much.

(00:20:08)

[8] **For illustrative purposes only.** There is no guarantee that any such results would be achieved.

Similarly, Flexible Fixed Income's duration has increased from 1 year at the end of 2021 to 3.1 years at the end of June, a 2.1 year increase. In comparison, the average nontraditional bond fund increased its duration by much less.

But it's not just about the magnitude of the change. It's the starting and end points that matter. [In our view], starting out with a lot of uncompensated risk and then adding more risk when the compensation increases isn't as helpful. [We think] it's better to start from a position of very low risk then add risk as prices fall and prospective returns increase.

In that vein, we started this interest rate cycle with a very short duration because yields were historically low and we didn't believe we were getting paid for duration risk. Only when rates increased and the compensation for duration increased did we start adding duration.

We'll provide more detail in a few minutes, but both funds have been focusing their capital on longer-duration, high-quality bonds. As we showed earlier, high-quality bond spreads have narrowed quite a bit so even in high-quality bonds, we've been moving up in quality and towards more down-the-fairway investments. We're not betting on anything. We just see that, at current market prices, we don't think we're getting paid enough incrementally for the incremental lack of liquidity, credit risk, and spread duration to own other things. As always, we're open to pivoting if and when prices change.

[Please see slide 25] There's a similar theme in the high yield market. This chart shows the yield and spread on the BB component of the High Yield Index excluding energy. We don't invest based on this chart but it's a decent measure of what we're seeing generically as we look at individual investment opportunities. And what we see is that, like the rest of the bond market, yields remain near 15-year highs but spreads are quite low. For this index, spreads are at the 6th percentile.

(00:22:00)

[Please see slide 26] This next chart compares the spread on the same High Yield Index to the spread on investment grade corporate bonds. This measures the extra yield you get for moving from investment [grade] to high yield. We can see towards the right that this incremental spread is at the 4th percentile, so it's historically low, and that reflects what we've been seeing as we look at individual bonds. When we look at high yield or, more generally, lower-rated debt these days, we generally find that the extra return that we can get over investment grade bonds is not enough to compensate for the incremental credit risk. That explains why the credit exposure in both funds has come down as we've been allowing our credit exposure to decrease organically by our maturities and, in some cases, actively exiting positions as prices have gone up and the prospective returns no longer justify the risk.

[Please see slide 28] Now we'll review the second quarter, starting with New Income. The bottom right of this table shows that New Income returned 1.12% before fees during the quarter.

Asset-backed securities backed by equipment were the largest contributor to performance because of coupon payments, that were partially offset by lower prices as a result of an increase in risk-free rates.

Agency mortgage pools were the second-largest contributor to performance due to coupon payments and principal amortization applied to the pools' discount dollar price, which was partially offset by lower prices caused by an increase in risk-free rates.

The third-largest contributor to performance were our corporate holdings, comprised primarily of corporate loans and bonds, that benefited from coupon payments and price appreciation because of an overall decrease in spreads for these investments.

The common stock holdings also contributed to returns as a result of price appreciation. As a reminder, the common stock holdings represent the value received for past investments in corporate bonds or loans which have been restructured. We generally intend to hold these common stock investments until their market price better reflects our estimate of intrinsic value.

(00:24:04)

Although certain individual bonds detracted from performance during the quarter, there were no detractors at the sector level.

[Please see slide 29] This table provides a high-level breakdown of the portfolio by sector and shows the sources of yield, duration, and spread. As shown at the bottom, the duration increased by 0.2 years versus the prior quarter, while the yield-to-worst did not change much.

[Please see slide 30] These pie charts provide a more granular look at the portfolio. Each slice of the pie represents an investment idea that is at least 4% of the portfolio. The light blue ‘Other’ slice is a total of all investment ideas that are each less than 4% of the portfolio. We’ve lumped those smaller ideas together for the sake of legibility but the full detail of our holdings is available on our website.

During the last quarter, we bought fixed rate, high-quality bonds including agency-guaranteed residential mortgage pools, nonagency residential mortgage-backed securities or RMBS, agency-guaranteed commercial mortgage-backed securities or CMBS, asset-backed securities or ABS backed by equipment, ABS backed by prime-quality auto loans, ABS backed by credit card receivables, and bonds backed by single-family rental properties which we categorize as nonagency CMBS.[9] These investments had a weighted average life of 6.4 years and a weighted average duration of 5.3 years. We also extended the duration of the [Fund's] Treasury holdings.

In addition to using the proceeds from maturing investments to fund investments, we sold high-quality bonds with a weighted average life and duration of 1.9 years and 1.7 years respectively. We also sold a BBB-rated corporate bond, and unrated bonds backed by nonperforming single-family mortgages.

[Please see slide 31] Due to amortization and those sales, the credit exposure in the portfolio decreased to 9%, which means that 91% of

[9] Certain of these new investments made during the quarter fall into the "Other" category in the pie chart.

the portfolio is held in a combination of cash, Treasuries, agencies, and other bonds rated AAA to single-A.[10]

(00:26:08)

[Please see slide 33] Moving now to Flexible Fixed Income, the bottom right of this slide shows that Flexible Fixed Income returned 1.32% before fees during the quarter.

Collateralized loan obligations or CLOs backed by corporate loans were the largest contributor to performance during the quarter. The return on these bonds came from coupon payments and higher prices due to lower spreads.

The corporate holdings were the second-largest contributor to performance[11], with the return mostly due to coupon payments with some additional benefit from price depreciation from an overall decrease in spreads for these investments.

The [third] largest contributor to performance were agency mortgage—sorry, the third-largest contributor to performance were agency

[10] For reference, credit exposure was approximately 10% as of March 31, 2024.
[11] ABS – Other includes a number of smaller investments that fall within a more general asset backed securities classification. Collectively these individual investments were the second larger performance contributor during the period, however, Corporate Holdings were the second largest when viewed from a singular investment idea perspective.

mortgage pools, due to coupon payments and principal amortization applied to the pools' discount dollar price, which was partially offset by lower prices caused by an increase in risk-free rates.

While there were individual bonds that detracted from performance during the quarter, there were no detractors at the sector level.

[Please see slide 34] This table provides some detail on the composition of the portfolio. At the bottom, we see that the yield[-to-worst] decreased by about 18 basis points versus the prior quarter, and the duration increased slightly. The decrease in yield is due to a decrease in market spreads and a decrease in the portfolio's credit exposure.

[Please see slide 35] These pie charts follow the same format as the charts we discussed a few minutes ago. During the quarter, we bought high-quality bonds including agency mortgage pools, nonagency RMBS, agency-guaranteed CMBS, ABS backed by equipment, ABS backed by prime-quality auto loans, bonds backed by single-family rental properties which we categorize as nonagency CMBS, and ABS backed by credit card receivables.[12] These investments had a weighted average life of 6.4 years

[12] Certain of these new investments made during the quarter fall into the "Other" category in the pie chart.

and a duration of 5.3 years. We also extended the duration of the Treasuries in the portfolio.

(00:28:06)

These investments were funded using a combination of proceeds from maturing investments and sales. We sold high-quality bonds with a weighted average life and duration of 1.5 years and 1.3 years respectively. We also sold a corporate loan.

[Please see slide 36] As noted earlier, due to sales and maturities, the credit exposure in the portfolio decreased from 20% last quarter to 17% at the end of June.

[Please see slide 37] Thank you for your time today. We can now answer any questions that have come up.

Kristina: Thank you for those of you who have submitted your questions in advance. We addressed many of them in prepared remarks, and now Abhi will take those that were submitted during live webcast and outstanding ones from previously submitted.

Abhijeet: Thank you, Kristina. Someone asked if we could please review the current status of our team.

Probably the best way to answer this question is that people can go to our website. Our entire team, along with their roles, is listed there. So if, after seeing that, anyone has any follow-up questions, feel free to contact us and we're happy to give you more detail.

We had someone asking, **"Do you think the funds are less attractive relative to Treasuries than they were a year ago given the compression in credit spreads?"**

So, we would say no. And the reason is that we view the risk versus reward as very appropriate today given the compression in credit spreads. So on a headline basis, one might say that yes, spreads are lower today, you are earning less relative to Treasuries than you were a year ago, as a data point. But we don't think it's appropriate to take those observations in a vacuum. [We believe] it's more appropriate to think about pricing in comparison to the risk that you're taking on. And so in comparison to the risk, we think that the risk versus reward to the Fund is appropriate given the environment. So we don't think it's any less attractive than it was a year ago, let's say, on a risk versus reward basis.

(00:30:19)

There was another question asking, **"When interest rates were next to nothing, the funds failed to meet their stated goals of beating inflation over the specific time period. With the Fed likely to start reducing rates again this fall, how will that affect the fund performance?"**

So, if I may, I'd like to reframe the question. When interest rates were next to nothing, rather than try to take on a tremendous amount of risk in an attempt to generate more return than inflation, we opted to prioritize preserving capital. And so I think the response from our investors because of that action we took has been a response of appreciation for generating a very small drawdown in comparison to the rest of the market.[13] And since rates have reset, we have, over the past couple of years, taken advantage of the higher rate environment to add more return into the portfolio.

So then, in response to the question of how might the fund perform if the Fed starts reducing rates, well, you don't need to take my word for it. You can look at the price movement of the two funds over the last couple

[13] Among other goals, the Funds' portfolio manager seeks to provide the Funds' investors with attractive long term and less volatile performance. Please refer to slides 14 and 15 the accompanying presentation for a graphical representation of the performance of the Funds and their comparative indices over the previous ten (10) years.

of days because we've had a pretty significant [price] rally in risk-free rates over the past couple of days, and that should give you an idea of how the Fund might perform in a decreasing rate environment.

(00:31:52)

I would also note that we're not hiding from the fact that we have not been able to beat inflation over the recent history, and in fact we spoke about this in great detail during our third quarter webcast in 2022. So if anyone wants to learn more about our views on how we think about trying to beat inflation, I encourage them to go to our website where you can see the archive of that webcast. And again, that's a webcast from Q3 2022. And as always, if anyone has any additional follow-up questions, we are always happy to help.[14]

And then the last question we had is, **"Has your positioning changed at all lately due to higher delinquencies in consumer autos and credit cards?"**

So I'm going to break up that question. The positioning has changed but not because of higher delinquencies in consumer autos and

[14] The Q3 2022 webcast can be accessed here: https://fpa.com/funds/fpa-new-income-fund-webcast-archive

credit cards. People who have been following us for quite a while, and those who are interested in looking, can see that over the past several quarters, our exposure to various forms of consumer credit has decreased, and that's most notable in the decrease in our auto ABS exposure. We have not been doing that because we have concerns about the increase in delinquencies on the impact on our bonds. We are quite comfortable with the bonds that we hold in the portfolio. We were quite comfortable with their insulation against the increase in delinquencies.

As a completely separate matter, we decided over the past several quarters to exit some of those investments because as we were going through the process of adding longer-duration investments into the portfolio, the most natural candidates of bonds to sell to raise capital to buy longer-duration investments are the shortest-duration investments, and it just happened to be the case that these consumer credit-backed, asset-backed securities were amongst the shortest-duration investments that we had in the portfolio, and so we exited it because of that analysis not because we had concerns about the quality of our bonds.

(00:34:05)

Kristina: Thank you, Abhi. It appears that we do not have any more questions at this time. We want to thank you for listening to FPA New Income Fund and FPA Flexible Fixed Income Fund Second Quarter 2024 Webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: [Please see slides 41-47] Thank you for you participation in today's webcast. We invite you, your colleagues, and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website, typically within a few weeks, at FPA.com. We urge you to visit the website for additional information about the fund, such as complete portfolio holdings, historical returns, and after-tax returns.

Following today's webcast, you will have the opportunity to provide your feedback and submit any comments or suggestions. We encourage you to complete this portion of the webcast. We know your time is valuable, and we do appreciate and review all of your comments.

Please visit FPA.com for future webcast information, including replays. We post the date and time of upcoming webcasts towards the end of each current quarter, and webcasts are typically held three to four weeks following each quarter end. If you did not receive an invitation via email for today's webcast and would like to receive them, please email us at crm@fpa.com.

We hope that our quarterly commentaries, webcasts, and special commentaries will continue to keep you appropriately informed on the strategies discussed today.

(00:35:51)

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.

Past performance is no guarantee nor is it indicative of future results.

Any mention of individual securities or sectors should not be construed as a recommendation 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 sector examples discussed.

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

You should consider the fund's investment objectives, risks, and charges and expenses carefully before you invest. The prospectus details each 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, toll-free by calling 1-800-982-4372, or by contacting the fund in writing.

FPA funds are distributed by UMB Distribution Services, LLC. UMB and FPA are not affiliated.

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

(00:37:53)

[END FILE]