

**Q1 2025 FPA New Income Fund (FPNIX) and Flexible Fixed Income Fund (FPFIX)  
Webcast  
May 1, 2025**

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

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**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 January 31, 2025 can be accessed at: <https://fpa.com/request-funds-literature>. The prospectus for FPFIX dated April 30, 2025 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.**

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Moderator: [Please see slide 1] Please note that today's webcast is being recorded. During the presentation, we'll have a question-and-answer session. You can ask text questions at any time. Submit your question in the questions and answers panel and click New Question to submit. If you would like to view the presentation in a full-screen view, click the corner of the slides panel to drag and resize to best fit your view. To restore the panels to their original view, click the Restore icon from the icons on the

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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 2025 Webcast. My name is Kristina Surkova and I am relationship manager for both funds.

The audio, transcript, and visual replay of today's webcast will be made available on our website [FPA.com](https://www.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 since its inception in December 2018.

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[Please see slides 2-5] 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.

Abhijeet: [Please see slide 6] Thank you, Kristina. Good afternoon. Thank you for joining us today. We manage three funds, shown here. We're focusing today on the two funds highlighted in blue.

FPA New Income [(FNI)], shown in the middle, is a short-term bond fund that seeks positive absolute returns over rolling 12-month periods, and in the long 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 high-quality fund which has to have at least 75% of its assets in investments rated single-A or higher. This fund 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 will depend on whether prices are attractive enough for us to invest, so our credit exposure will increase and decrease based on risk versus reward.

FPA Flexible Fixed Income [(FFI)] is shown on the right. Flexible Fixed Income is a non-traditional bond fund with the same investment

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philosophy as New Income. The key distinction versus New Income 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 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 and the volatility that might come with it, in the short term, Flexible Fixed Income seeks positive absolute returns over rolling 3-year periods.

(00:04:14)

Flexible Fixed Income is not expected to always own credit. It will own credit when the risk versus reward is attractive. Naturally then, when credit—excuse me. Naturally then, when the risk versus reward is not attractive, like it has been for several quarters, Flexible Fixed Income will own less credit and will look more and more like New Income. When credit gets attractive is when we would expect the two funds to diverge.

The FPA Short Duration Government ETF [(FPAS)], which is shown on the left, is a short-term government bond ETF. For all of our funds, we use a 100 basis point duration test to manage duration. We'll go through

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that test in detail today, but this ETF uses that duration test to actively manage the duration of a portfolio of Treasuries. The ETF can own other things as well, but operate on the assumption that it will only own Treasuries and maybe in a cheaper market, we own agency mortgages or other investment grade debt.<sup>1</sup>

We won't discuss the ETF during today's webcast but anyone who is interested in learning more can visit our website [FPA.com](http://FPA.com), where they will find a webcast that explains the ETF in detail.

[Please see slide 7] This is a snapshot of the New Income and FPA Flexible Fixed Income as of March 31. Shown at the top, at the end of March, FPA New Income had a 4.57% yield-to-worst and a duration of 3.4 years. 96% of New Income was held in highly rated investments and only 4% was in credit. Shown at the bottom, FPA Flexible Fixed Income had a 4.78% yield-to-worst and 3.3 year duration. 92% of Flexible Fixed Income was held in highly rated investments and 8% was in credit. As an aside, we show the Aggregate and Universal Bond indices here solely to help our

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<sup>1</sup> Portfolio limits are measured at time of purchase. FPAS may also invest up to 10% of its total assets in other investment grade debt instruments, shares of exchange-traded funds ("ETFs") and other mutual funds (including money market fund shares), reverse repurchase agreements, cash and cash equivalent securities.

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investors understand our funds' profile in comparison to the opportunity set.

We do not manage against those indices.

(00:06:11)

[Please see slide 8] Here's a summary of today's presentation. During the first quarter, benchmark Treasury yields decreased. Spreads in investment grade and high yield rated debt increased slightly but from a low base, so in that respect, the market got slightly cheaper but not cheap enough for us to care to add credit risk in a meaningful way. That meant that we focused our investment activity in both funds on longer-duration, high-quality bonds.

Tariffs were an overhang on the market in the first quarter and were announced in detail on April 2. We'll comment a bit on tariff-related developments today, but this webcast is focused on Q1 [2025]. The short version of our comments on tariffs is that they led to a spike in market volatility. On a spread basis, the market may seem cheaper but we don't view it as cheap enough given the risks that tariffs have introduced.

[Please see slide 9] Let's pause here for a minute. With tariffs dominating headlines, uncertainty is top of mind for everyone these days but has been top of our mind for many years. We've talked about the

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concept of uncertainty for a long, long time. In fact, we wrote about it in our year-end letter.<sup>2</sup>

We show this slide in our webcasts because it's a metaphor for investing and uncertainty. It highlights that the future is uncertain. We're looking forward, trying to see what's out there that could impact our investments, but there is always uncertainty around the risks that impact an investment. Those uncertainties cloud our ability to see clearly how things will transpire. There's uncertainty attached to competition, regulation, technological change, commodity prices, management teams, misaligned stakeholders, the list goes on—and now it includes tariffs. There is always uncertainty in investing. As an investor, part of the job is to try to buy at a price that accounts for that uncertainty.

(00:08:08)

Now, with a lot of risks, you can put boundaries around uncertain outcomes using history or economics as a guide, for example. Sometimes it's a narrow range of outcomes and sometimes it's a broad range of

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<sup>2</sup> FPA New Income Fund Fourth Quarter 2024 Commentary; [https://fpa.com/docs/default-source/funds/fpa-new-income/literature/fpa-new-income-fund-commentary-2024-12.pdf?sfvrsn=23db9e9d\\_4](https://fpa.com/docs/default-source/funds/fpa-new-income/literature/fpa-new-income-fund-commentary-2024-12.pdf?sfvrsn=23db9e9d_4)

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outcomes, and you can adjust for the range of outcomes in the price that you pay.

Tariffs are another uncertainty that we have to account for when considering the right price for an investment. Tariffs and other uncertainties are the reason we often speak about investment in terms of upside versus downside, and that's why we like downside protection because we think it's prudent to account for the possibility of bad things happening.<sup>3</sup>

With that in mind, let's talk about the market. As always, we won't have a view on what will happen. We don't speak about the future because we can't know what it looks like. We're merely commenting on what is happening at the moment, but we do so today with the caveat that anything we say about the market today, May 1, [2025] can quickly become stale with the next headline.

[Please see slide 10] To set the table, this chart shows the effect tariff rate on US imports based on the tariffs that were announced on April 2, [2025]. If the tariffs go into effect as announced, tariffs would reach levels that we haven't seen in approximately 100 years. Unfortunately, the

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<sup>3</sup> Downside protection refers strictly to a strategic investment goal and is not meant to imply any guarantee against loss, including the loss of the entire principal amount invested.



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economic history from the 1930s doesn't offer many helpful lessons for today for a couple of reasons.

First, we can see here that in the 1930s, tariffs were already high before they reached the level that was announced a few weeks ago. The marginal economic impact of going from, let's say, 20% to 25% is not as impactful as the impact of going from a couple of percent to nearly 25%.

Second, trade as a share of GDP is three times larger today than it was in the 1930s, so the aggregate impact coupled with a huge incremental increase in tariffs is much more significant today than it was in the 1930s.<sup>4</sup>

(00:10:02)

Markets have calmed down some because a 90-day pause on [certain] tariffs was announced and there has been talk of negotiations.<sup>5</sup> The administration says that it is in conversations with China, but China denies that. It's hard to know what's going on and where tariffs will settle. As investors, that makes it hard to know how to deploy capital, and that's a microcosm of what's now plaguing the US economy. People don't know how

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<sup>4</sup> Source: Federal Reserve Bank of St. Louis; data retrieved April 30, 2025.

<sup>5</sup> [Trump Enacts 90-Day Pause On Tariffs — Except On China](https://www.forbes.com/sites/antoniopequenoiv/2025/04/09/trump-announces-90-day-pause-on-hefty-tariffs---though-10-levies-will-remain/) (https://www.forbes.com/sites/antoniopequenoiv/2025/04/09/trump-announces-90-day-pause-on-hefty-tariffs---though-10-levies-will-remain/)

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they should spend their money because they don't know what the return on their capital will be.

Consequently, we've seen economically rational behavior like consumers pulling forward their spending to avoid higher costs once tariffs kick in. We're seeing companies stock up on inventory while also doing capex spending. We're seeing imports from China get canceled. Volume into the Port of Los Angeles, the largest in the country, is expected to drop by over a third, and that's just the short-term impact. Companies are rescinding their earnings guidance because of the uncertainty. It's not obvious that there are positives for the economy.

So while the backward-looking economic data may look good, the forward-looking data isn't looking so hot.

[Please see slide 11] For instance, the right side of this chart shows that business and consumer sentiment has fallen off a cliff.

[Please see slide 12] Here we see that business capex spending plans have fallen significantly.

In summary, looking forward, there are storm clouds on the horizon. It's not clear that the US economy is heading in a good direction. Again, we

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don't know what will happen, and things could change abruptly with the next tweak, though some of the damage may already have been done.

[Please see slide 13] Turning to market prices, the tariff announcements led to a significant increase in volatility as the market tried to digest trade policy and the economic impact. This chart shows volatility in the rates market in blue and the equity market in gray. The vertical dotted line marks April 2, the day tariffs were announced. We can see to the right of that line the spike in bond and equity market volatility.

(00:12:03)

[Please see slide 14] To provide a more tangible reminder of what that volatility felt like, this chart shows what an outlier those weeks after the tariff announcements were. This chart compares changes in the 10-year Treasury yield with the change in the S&P 500. X marks the market move on April 9, [2025]. The moves in market prices were the sorts of moves that have only happened a handful of times in the past sixty years.

[Please see slide 15] This chart shows the yield curve at March 31, [2025] versus December 31, [2024] and March of [2024]. As mentioned earlier, there was a lot of talk about tariffs during the first quarter, which served as an overhang on the market. While the backward-looking

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economic data suggested an economy that was in good shape, and the Fed left the Fed funds rate unchanged in the first quarter, the market was already beginning to price in weakness and expected Fed funds rate cuts going forward. That pushed benchmark Treasury yields lower in Q1, and yields were lower for much of the yield curve over the past 12 months.

Since March 31, [2025] benchmark Treasury yields have declined, but it has been volatile. For example, the 5-year Treasury dropped from 3.95% at the end of March to 3.71% on April 4, then shot up to 4.16% through April 11. Since then, the 5-year Treasury yield has fallen to 3.73% as of yesterday [April 30, 2025]. So it's been a net decrease of 22 basis points since the end of March but a peak-to-trough swing of 45 basis points.<sup>6</sup>

[Please see slide 16] This chart shows the yields and spreads in the high yield market. We show the overall High Yield Index, and we also show the BB component of the High Yield Index excluding energy. We often reference that BB index because [we believe] it gives a more consistent view of high yield pricing since it removes some of the distortions associated with changes in the composition of the overall index.

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<sup>6</sup> Source: Bloomberg.

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High yield spreads increased a bit during the first quarter [2025], but the increase was from a really low starting point. For example, the spread on the overall index increased by 61 basis points during the quarter and ended the quarter at 374 basis points, but that's still just the 22<sup>nd</sup> percentile of historical spreads. The lower the percentile, the more expensive the market is. The spread on the BB component, shown here, increased by 40 basis points during the quarter, but at 240 basis points was still just at the 34<sup>th</sup> percentile.

High yield has seen a lot of volatility since the end of March [2025]. Spreads on the overall index increased from 374 basis points to as high as 476 basis points on April 8, and have since come down to 417 basis points as of last night [April 30, 2025] — a 42 basis point net increase since the end of March. For reference, at the peak of 476 basis points, the spread was at about the 47<sup>th</sup> percentile of the history shown here, but now spreads are just at the 35<sup>th</sup> percentile.

Keep in mind that charts like this have limited informational value because they do not measure yield and spread relative to credit quality, documentation, the economy, or tariffs. Notably, the high yield has never

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seen tariffs like this, so a world like today doesn't show up in this historical data.

The BB index excluding energy saw its spread increase from 240 basis points at the end of March [2025] to as high as 317 basis points before ending at 270 basis points as of last night [April 30, 2025], a net 30 basis point increase. That index is now at the 49<sup>th</sup> percentile. And because of the net decline in Treasury yields, high yield bond yields haven't increased much since March 31, maybe 15-20 basis points.

(00:15:53)

Some might wonder if these tariffs have created a buying opportunity. Without commenting on what we've done since the end of the quarter, headline prices have come down but are high yield bonds cheaper? That remains to be seen. Tariffs could have a material significant impact on earnings, asset value, leverage, and liquidity. So, while high yield bond spreads and spreads for lower-rated debt in general may be lower, they may still not be cheap enough given the challenges that issuers face. It's hard to know without knowing what the tariffs will be. Again, that highlights the challenge which is permeating the broader economy: how do you invest when the return is so uncertain?

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What we do know is that buying the dip doesn't make sense. That feels irresponsible to us, especially because debt has asymmetric returns. Upside is limited but the downside is a 100% loss. Things could turn out well but the gains won't be commensurate with the potential loss if they don't. In summary, this market is not obviously attractive but, as always, we're willing to buy if and when the price makes sense for the risk.

[Please see slide 17] Turning to the market for investment grade bonds, this chart shows the yields and spread on the investment grade Aggregate Bond Index. The subcomponents of the index that have spread, including corporates, mortgages, and other structured products, saw their spreads increase by 5 to 20 basis points during the [first] quarter [2025]. But due to weightings, the overall index spread increased by 4 basis points during the quarter, leaving it at the 2<sup>nd</sup> percentile.

Since the end of March [2025], the spread on this index got as high as 56 basis points, the 15<sup>th</sup> percentile, and is most recently at 53 basis points, which is the 11<sup>th</sup> percentile.<sup>7</sup> Overall yields are about 10 basis points

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<sup>7</sup> As of April 30, 2025.

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lower, so this market is not that much cheaper on a spread basis and certainly not what we would call cheap.<sup>8</sup>

Because those spreads offer what we think is inadequate compensation for credit risk, we did not find much opportunity in lower-rated debt during the first quarter [of 2025]. Even in the investment grade bond market, because low spreads introduced greater mark-to-market risk, the farther that spreads get from historical norms, we have been steering away from more esoteric investments toward more straightforward, down-the-fairway investments that we think are relatively more liquid and less prone to an increase in spreads.

(00:18:11)

As we did that, we continued to seek longer-duration investments. We are not buying longer-duration investments because we think that interest rates are going lower. We aren't going to pretend we know which way the market will go.

[Please see slide 18] Rather, we like longer-duration bonds for two reasons. First, on an absolute basis, we think longer-duration investments

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<sup>8</sup> Past performance is no guarantee, nor is it indicative, of future results.



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offer an attractive long-term return. This slide shows that Treasury yields remain near decade-plus highs. We want to lock in higher yields while we can, and own those yields for multiple years. To understand why, we can think about periods when rates have gone down. When rates decline, people regret not buying higher yields when they were available. Because of uncertainty, some people may feel a temptation to hold cash or buy shorter-duration bonds, but there's an opportunity cost of doing that because you potentially miss out on higher returns if yields subsequently decline. We want to avoid the opportunity costs of cash and short-duration bonds.

As yields increased over the past several years, we took advantage to add duration. The dots on this chart show the duration of New Income and Flexible Fixed Income, and show the relationship between rates and the duration of our funds. As rates decreased from 2019 to 2021, the duration of our funds decreased. And as rates increased from 2021 through today, the duration of our funds increased. That happened because instead of guessing where rates will go and then choosing duration to bet on that guess, we focus on current rates and then choose the duration of our

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investment. We use our 100 basis point duration test to guide us in that process.

(00:19:54)

[Please see slide 19] Our 100 basis point test seeks to identify the longest duration bonds that will generate an expected breakeven total return over 12 months if we assume that the yields will increase by 100 basis points during those 12 months. We apply this test in some form to each of our investments.

We illustrate our duration test here using Treasuries as an example. The dark blue bars show the Treasury yield curve as of March 31, [2025]. The green bars show the results of our 100 basis point duration test. For example, if we bought the 5-year Treasury at a 3.95% yield and then the yield increased by 100 basis points over 12 months from 4.95% in the next 12 months, we would expect to earn a positive total return of 0.36% over those 12 months. Because the expected total return is better than breakeven, as of the end of March, the 5-year Treasury and similar maturity bonds would be a candidate for our portfolio. However, the 7-year Treasury would have an expected total return loss of minus 1% using our test, so it would not have been a candidate for our portfolio at that time.

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We think about our test and those green bars as a short-term downside and show that these longer-duration investments that we've been making have some ability to protect capital if rates increase.

At the same time, these longer-duration investments have the potential to generate high single-digit returns if rates were to decrease, which we show in the light blue bars. The light blue bars show the total returns if rates decrease by 100 basis points, and represent the short-term upside potential.

And that gets us to the second reason that we like longer-duration bonds at these yields. We think our longer-duration investments offer an appealing combination of short-term downside protection and upside optionality which we think is valuable, especially in light of the heightened macroeconomic uncertainty.<sup>9</sup>

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This approach to buying duration is a good example of how we think about investing. We don't like investments where success requires one

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<sup>9</sup> No representation is being made that any account, product or strategy will or is likely to achieve profits, losses, or results similar to those discussed. Hypothetical results do not reflect trading in actual accounts, and does not reflect the impact that all economic, market or other factors may have on the management of the account. Hypothetical results have certain inherent limitations. There are frequently sharp differences between simulated results and the actual results subsequently achieved by any particular account, product or strategy.

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specific outcome. We do like investments that have multiple ways to win. With so much macroeconomic uncertainty, and unable to predict whether rates will rise or fall, we think that this approach leaves us well-positioned for either outcome.

[Please see slide 20] We can see how this approach to duration management translates at the portfolio level. This chart estimates the return on New Income over the next 12 months, before fees, assuming that the reference yield on every investment in the portfolio changes by the amount shown on the x-axis. This analysis assumes that we don't make any changes to the portfolio, and maturing investments are held in cash.

We can see the downside scenarios on the right, where New Income could withstand a 150-175 basis point increase in yields and still expect to produce a positive return over 12 months before fees.

On the left, you can see the potential upside where New Income could return approximately 7% if rates were to decrease by 100 basis points over the next 12 months.

[Please see slide 21] This is the same analysis for Flexible Fixed Income, with similar outcomes.

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The potential to get positive or breakeven returns in a rising rate environment, coupled with a potential high single-digit return in a lower rate environment, is the attractive upside versus downside that we think we've been creating by adding duration to the portfolio. Another way to characterize it is that we think we can capture a lot of the available upside in the Aggregate Bond Index or other longer-duration broad market indices, but with better downside protection.

[Please see slide 22] And these return profiles are more than just a math exercise. This chart shows the actual 1-year return and max drawdown on New Income versus the Aggregate Bond Index, and Flexible Fixed Income versus the Universal Bond Index. Over the past 12 months, as benchmark yields on short to intermediate maturity bonds declined, both New Income and Flexible Fixed Income outperformed their respective indices, with smaller drawdowns along the way.<sup>10</sup>

(00:24:10)

[Please see slide 23] The consistent and disciplined use of absolute value to manage risk and upside versus downside over the years has

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<sup>10</sup> Past performance is no guarantee, nor is it indicative, of future results.

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allowed us to compound capital at a greater rate, with less volatility. This chart shows the value of an investment in New Income over the past 10 years compared to the average short-duration bond fund, the 1-3 Year Aggregate Bond Index, and the longer-duration Aggregate Bond Index. As the green line and the data below show, New Income has made its investors more money, with smaller drawdowns along the way, resulting in [attractive] risk-adjusted returns.

[Please see slide 24] We've used a similar approach with Flexible Fixed Income, with similar results. This chart compares Flexible Fixed Income since its inception at the end of 2018 to the average non-traditional bond fund and the Aggregate and Universal Bond indices. The green line in this chart and the data below show that Flexible Fixed Income has made its investors more money with smaller drawdowns along the way, resulting in [attractive] risk-adjusted returns.

To summarize, there's a lot of uncertainty. We don't think the market is attractively priced given the risks out there. The market feels like it's levered to good outcomes without sufficient compensation for bad outcomes. Given the uncertainty and the expensiveness of the market, we think it makes sense to own investments with multiple ways to win. As we

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move now to a recap of the first quarter and current positioning, hopefully you will hear that perspective reflected in our positioning as both funds have been moving toward higher quality and longer duration of holdings.

(00:25:55)

[Please see slide 25] We'll start with New Income and begin by reviewing the first quarter's performance.

[Please see slide 26] The bottom right of this table shows that New Income returned 2.68% before fees during the quarter. This table provides details on the sources of that return.

The largest contributors to performance during the quarter were agency mortgage pools, Treasuries, and agency-guaranteed CMBS. In all three cases, the return was driven by price appreciation caused by lower benchmark Treasury yields.

There were individual investments that detracted from performance during the quarter but there were no meaningful detractors at the sector level.<sup>11</sup>

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<sup>11</sup> Past performance is no guarantee, nor is it indicative, of future results.

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[Please see slide 27] Here we detail the New Income portfolio's sector exposure. At the bottom, we compare the portfolio at year end versus the portfolio at March 31, [2025]. The duration, at 3.4 years, is essentially unchanged over the past 3 months. The yield-to-worst has decreased by 29 basis points, largely due to a decrease in benchmark Treasury yields.<sup>12</sup>

[Please see slide 28] Here we break down the portfolio by investment idea. Any idea that is at least 4% of the portfolio is shown as a separate slice of the pie. The blue Other slice is the sum total of all of the investment ideas that are each less than 4% of the portfolio, and includes ideas that we are building, ideas that we are exiting, and ideas that we just haven't found enough of to get to more than 4% of the portfolio.

During the quarter, we extended the duration of our existing Treasury holdings. We also sold asset-backed securities backed by credit card receivables that had a duration of 3.7 years, and reinvested the proceeds into Treasuries with a duration of 4.3 years. Those transactions removed the spread duration on these investments while adding about a half-year of interest rate duration. In addition, we bought high-quality bonds with an

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<sup>12</sup> Past performance is no guarantee, nor is it indicative, of future results.



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average duration of 5.3 years. These investments included agency mortgage pools, AAA-rated nonagency residential mortgage-backed securities, and AAA-rated bonds backed by single-family rental properties which we categorize as nonagency commercial mortgage-backed securities.<sup>13</sup>

(00:28:07)

We periodically sell investments to raise cash for new investments or because we own an investment that is trading at a price where the prospective return is no longer worth the risk. In the first quarter, we sold for both reasons. We sold asset-backed securities backed by recurring revenue loans and asset-backed securities backed by equipment. Those sales had a weighted average duration of 2.4 years. We did not make any credit investments in New Income during the quarter.

[Please see slide 29] This chart shows the exposure to credit, which are the investments rated BBB or lower. Only 4% of the New Income portfolio is held in credit, which means that 96% of the portfolio is held in a

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<sup>13</sup> Portfolio composition will change due to ongoing management of FPNIX. The portfolio holdings as of the most recent quarter-end may be obtained at [fpa.com](http://fpa.com).

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combination of cash, Treasuries, agency-guaranteed debt, and other highly rated debt.

[Please see slide 30-31] Moving on to Flexible Fixed Income, this table shows that Flexible Fixed Income returned 2.52% before fees during the quarter.

The largest contributors to performance were agency mortgage pools, Treasuries, and agency-guaranteed CMBS. In all three cases, the return was driven by the decrease in benchmark Treasury yields.

There were individual bonds that detracted from performance but there were no meaningful detractors at the sector level during the quarter.<sup>14</sup>

[Please see slide 32] At the bottom of this slide, we compare the portfolio at year end to the portfolio at the end of March. The duration decreased slightly, to 3.3 years, and the yield decreased by 29 basis points during the quarter, largely due to a decrease in benchmark Treasury yields.

[Please see slide 33] These pie charts follow the same format that we reviewed for New Income. During the quarter, we extended the duration of the existing Treasury holdings. We sold high-quality ABS backed by

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<sup>14</sup> Past performance is no guarantee, nor is it indicative, of future results.

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credit card receivables that had a duration of 3.7 years, and reinvested the proceeds into Treasuries with a duration of 5.2 years, thereby removing the spread duration exposure and adding about a half-year to the interest rate duration.<sup>15</sup>

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We bought high-quality bonds that had an average duration of 5.2 years. These investments included agency mortgage pools, nonagency RMBS, single-family rental bonds, ABS backed by equipment, and Treasuries.

We sold high-quality ABS backed by equipment with a weighted average duration of 4 years because the spread on those bonds declined which, in combination with policy changes from the administration, led to a prospective return profile that no longer compensated for the risk in the investment.

Lastly, we made a small investment in a corporate loan which resides within our credit holdings.

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[Please see slide 34] However, even with that investment, as shown here, the credit exposure in the portfolio decreased from 10% at the end of [December 31, 2024] to 8% at March 31, [2025].

[Please see slide 35] That concludes our prepared remarks. We'll start Q&A by answering some pre-submitted questions.

The first question is, **"Given the economic volatility, do you see the fund holding more or less cash?"**

Aside from some minimal level of cash—excuse me. Aside from a minimum level of cash, cash is a residual of our investment process. The cash we show at the end of each quarter is just a snapshot of a moment in time. We're always in the process of investing. If the quarter happens to end during a time when we're deploying capital, then the reported quarter-end cash balance may look low but might then increase after the quarter as we rebuild the cash balance. Alternatively, if the cash balance looks high at quarter end, that could be because we haven't yet deployed capital when the quarter ended so the cash balance might be lower after the end of the quarter.

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With that said, we have generally kept around 3-8% of the funds in cash. We don't have specific plans to hold more or less cash than we normally do.

(00:32:06)

Our first priority is always to maintain sufficient cash to meet the needs of our investors. We know that historically, volatility can lead investors to consider allocation changes, so we'll keep that in mind when determining the minimum amount of cash we need.

Our second priority is to maintain enough cash to take advantage of investment opportunities that may arise. To the extent that there are plentiful opportunities, we may raise more cash.

The second question is, **"With the potential for higher inflation, are you considering shortening duration?"**

There is potential for higher inflation but we don't know that for sure. That doesn't mean it's a low probability but that also doesn't mean it's 100% certain. It really depends on how trade policy evolves and what the first, second, and third-order effects are on the economy. Nominal bond yields reflect expected inflation. If prices go up due to tariffs but then the growth in prices returns to 2-3%, that may not impact inflation expectations on

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intermediate to long-term bonds, and the Fed may not even react to that sort of temporary increase in inflation. On the other hand, if trade policy leads to an increase in inflation expectations, then nominal bond yields could increase, all things being equal, and bond prices could decrease.

There is another scenario where aggregate demand is so negatively impacted by the ramifications of trade policy that the net impact on prices is non-inflationary. So it's possible that the Fed cuts rates, which could lead to higher bond prices.

Then, maybe it's crazy but it's possible that we wake up tomorrow and there's an announcement from the White House saying we've reached deals with everyone, tariffs are off. It's not clear what that would do to inflation. That could be inflationary or it could not.

We go through all this because we have thought about the duration of our funds. As we mentioned earlier, and hopefully it's clear from our answers, that we don't know for sure what's going to happen and it's really hard to have a lot of confidence in any outcome without knowing where trade policy will settle.

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As of now, we think that the bonds that we're buying set us up for success under a number of these outcomes. We're buying duration, with enough yield that we've got the ability to preserve capital in the short term if rates rise, as long as rates don't rise by several hundred basis points. But we've also got option value on lower rate scenarios. This seems like the best approach to us because we have multiple ways to win rather than betting on a single outcome which we can't have conviction in. We think we're avoiding potentially big losses on really long bonds if inflation is a problem. On the other hand, if inflation is not a problem, really short-duration bonds won't benefit as much as the bonds that we're buying. We're trying to strike a middle ground with a balanced upside versus downside, which feels appropriate given the uncertainty.<sup>16</sup>

We're going to combine a couple of next questions. **"Where was FPA New Income deploying cash after 'Liberation Day' with the increase in spreads (at least for a few days)?"** and **"What is New Income's biggest conviction in terms of issuer type and duration?"**

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Hopefully the answers to those questions were covered during our prepared remarks.

Next, we have another question. **“Does the team still think that treasuries are attractive now that 10-year treasury yields are below 4%? Granted the team seems to buy treasuries below 5-year maturity.”**

That's correct. We generally have been buying 5-year maturity treasuries recently. They are certainly less attractive now that yields are lower but, in the absence of other, longer-duration investments, we still think Treasuries could make sense because of the reasons we outlined earlier.

Next question relates to private credit and asks, **“Has the advent of private credit affected the high yield bond market? How would a weakening economy and increased spreads in lower quality debt affect private credit [given] its illiquidity and delayed reporting?”**

So I think there are a couple of questions here. First, we've seen private credit pull some supply out of the leveraged loan and high yield market as private credit lenders try to take market share.

(00:36:08)

How would a weakening economy affect private credit? Like any other debt investment, it depends on how well a particular loan is



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underwritten. I think part of the pitch on private credit has been that credit quality is better than what's available in public markets. I'm not sure that's always true, particularly because there's been so much private credit capital chasing lending opportunities. I think, with that, has come a degradation in credit quality, but it really depends on the manager and individual loans.

Said another way, we don't think private credit will be completely immune from capital impairment if the economy gets worse, but it will depend on the loans. As always, the devil is in the details.

Regarding spread and illiquidity, I think this is asking from the perspective of an investor in private credit. If market spreads increase, what does that mean for an investment in private credit? I think the saying, or the question that's philosophically asked, is if a tree falls in the forest and no one sees it and no one hears it, did it fall? Similarly, if private credit lenders aren't properly marking their loans, even though market spreads are wider, are spreads really wider? Of course they're wider and private credit should be marked at lower price. But just because something should happen doesn't mean it will. Whether that impacts an investor in private credit

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depends on whether that investor is a buyer or a seller, and the liquidity provisions of the investment vehicle.<sup>17</sup>

Combining the next couple of questions, **“With foreign governments upset with the US, who is going to buy all our longer term debt?”** and **“Are you concerned that yields will have to rise to attract investors into US markets? Are you concerned about the reserve currency status of the dollar?”**

(00:37:52)

Those are all great questions and something that we’ve been thinking about. I think the concern is that valuations would fall and yields would rise if there’s less demand for US Treasuries or US assets, or the US dollar loses its reserve status. I think all of those things are possible but it really depends on what happens with trade policy. Even if tariffs were completely unwound, there is an argument that the US has upset so many countries that, even if it’s not immediate, over time, those countries move

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away from US assets and the US dollar. That's possible but we don't know the odds of that happening.

What we do know is that the US dollar's share of international transactions has been falling even before this year. We also know that countries had been diversifying away from Treasuries and the dollar even before this year.

In thinking through whether there could be a flight out of the dollar and US assets, I think that we should consider whether there is a good alternative to the dollar. It's not clear that there is today. From what we've read, other countries want to hold reserves in currencies that are large, liquid, relatively stable, and easily convertible. It's not clear that the US dollar is stable but, at the moment, it's relatively more stable. It's liquid and easily convertible because it's not subject to capital controls or other things that would make it hard to exit the dollar. Now, that could all change but, at the moment, other currencies or crypto don't seem to check all the boxes. So it seems like a low likelihood that there's a switch out of the dollar and Treasuries overnight, but that doesn't mean it doesn't happen over time as other countries actively seek ways to diversify their exposure away from the US.

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But this is a good thought process to go through because it's really hard to sit here today and play the geopolitical game of chess and think that we can predict with a lot of confidence what the chessboard will look like over the next several years. This underscores why we try to invest with protection against bad outcomes and ideally get some ability to participate in good outcomes.

Next question is, **"Yield talk and expectations for the 10-year. What fixed income space is an encouraging value or purchase price now if at all? Munis?"**

I think we answered this already but I'll just add that I think people give Munis too much credit for being a good credit.

(00:40:04)

Moving now on to some questions that we received during the presentation, **someone asked about our corporate bond exposure, noting that it's comprised of other funds such as BDC's. Is this typical?**

So, the corporate bond exposure that's being referenced is referring to BBB-rated bonds issued by BDC's [(Business Development Companies)] that we have in our portfolio. So we do not own BDC's equity, to be clear.

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Whether or not this is typical, so looking at the 40 years of history of the Fund and even the last 5-10 years' history of New Income certainly, and certainly since the inception of Flexible Fixed Income, we have owned BDC bonds clearly the minority of the time. But I would say that it is typical that we own these bonds in the sense that it's typical for us to try to buy things when we think that they're attractively priced. So you should expect that it's common to see in our portfolio show up from time to time, certain investment ideas that have never really been there before but we opportunistically bought them because the price was appealing.<sup>18</sup>

**Next question notes that there is an exposure to common stock in the portfolio. Is it planned to ultimately dispose of these three positions?**

The plan is to hold these positions until we think that we can exit them at fair value, and so the timing on that is TBD. As we go through that process, so we're of course going to want to try to maximize return on the

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capital that's dedicated to those investments. So that will also factor into the timing of the exit.

**And then the next question we received was noting that the Treasury allocation includes an exposure in one specific Treasury bond that is several hundred million dollars. What is the capital on the individual bond size relative to the total, and how does that differ from Treasuries and government-backed bonds?**

(00:42:05)

So, typically in the portfolio, we will limit the exposure to any single CUSIP or investment to approximately 1% of the portfolio, and maybe it's a little bit more, maybe it's a little bit less than that. For Treasuries, because of how liquid the Treasury market is and because any specific Treasury issuance can have a size that's tens of billions of dollars, even owning hundreds of millions of dollars of that is a very small portion of the outstanding issuance and we don't think would impact the liquidity of the bonds that we own. So you might see, with Treasuries specifically, that we are comfortable holding many percentage points of an exposure in one specific Treasury.

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And with that, I believe that covers all of the questions that we received. Kristina, we'll turn it over to you.

Kristina: Thank you, Abhi. Thank you, everyone, for listening to the FPA New Income Fund and FPA Flexible Fixed Income Fund First Quarter 2025 Webcast. We now turn it over to the system moderator for closing comments and disclosures.

Moderator: [Please see slides 39-44] 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.

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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).

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

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