More Comments on Mutual Fund Industry Transgressions

October 31, 2006

Based on the front-page article in the October 26, 2006, Wall Street Journal, we believe that the latest investigation by the SEC of 27 fund companies for allegedly accepting kickbacks from service providers requires us to revisit our commentary put forth in the wake of the 2003 mutual fund scandals (included below). This investigation stems from the SEC's settlement with one such service provider (Bysis) last month. Once again, a group of fund companies have violated their investors' trust. Those perpetrators did not just put their interests ahead of their fund shareholders; they blatantly diverted money from the funds for their own gain, the "functional equivalent of embezzlement" according to Mercer Bullard, a law professor at the University of Mississippi. They also attempted to deceive the fund boards, shareholders, and regulators in the process. To add further insult, independent, third party administrators abetted the fund companies.

We want to assure our fund shareholders, directors, clients and partners that we at FPA take our fiduciary responsibilities seriously. Our goal remains to put your interests first. We do not have any side agreements with service providers to receive kickbacks from fund or client assets and we have never had a business relationship with Bysis. We internally administer all of the FPA Funds. We believe our reluctance to use outside administrators continues to serve our shareholders well as we are in the best position to ensure that our organization's interests are aligned with those of our shareholders.

As noted in our 2003 commentary below, we have always fully disclosed our policies relating to unrestrained growth, soft dollars, 12b-1 fees and buying "shelf-space." As an update, since that was written, we have closed several products to new investors. These closed products represent more than half of our assets under management. In addition, our organization has been strengthened as a result of our recent separation from Old Mutual plc. First Pacific Advisors is now a Limited Liability Company owned entirely by eight internal members. This is the first time in the fifty-year history of this organization that the members who manage the FPA Funds also own the firm. We believe this solidifies the organization so that we may continue to manage it with a long-term perspective that is in the best interests of our clients, mutual-fund shareholders, employees and members. Thank you for your continued support and trust.

COMMENTS ON TRANSGRESSIONS IN THE MUTUAL FUND INDUSTRY

October 31, 2003

In light of recent articles concerning mutual-fund company transgressions, we believe a few comments are in order. It is with a degree of sadness but also contempt that we are witnessing a broad cross section of mutual-fund companies violating their investors' trust. It amazes us that so many will sell their good name for so little. The 1990's "go-go" attitude of business excess and questionable ethics appears to have spread to various areas of the investment-management industry. During this period, we at First Pacific Advisors, Inc. have always placed the interest of our clients and shareholders first. For example:

1. At various times we have chosen to close certain of your Funds to new investors so as to control their rate of growth.
2. We instituted a 2% rear-end load for assets held for less than 90 days in an attempt to minimize short-term trading activity. We have also locked out clients who have demonstrated a history of repeated short-term trading.
3. We have a code of ethics that is taken seriously by all associates at FPA as well as by your Funds' Board of Directors. A formal report and discussion of personal trading occurs at every board meeting.

4. We have never used your commission dollars to purchase access or buy influence in the marketing of your Funds. We know that this has cost FPA in terms of gaining assets under management, but we did not view this type of activity as benefiting our shareholders.
5. The use of “soft-dollar” payments has been minimal and almost exclusively for the acquisition of research. Among the larger commitments is for research that provides information that is used by your Boards to monitor your Funds’ performance and expenses. “Soft-dollar” payments as a percentage of assets under management have generally averaged less than two basis points (2/100 of a percentage point).
6. We have worked hard to manage and reduce the operating expense ratios of your Funds. In addition, because portfolio turnover rates are kept low, transaction costs are minimized.
7. Finally, we are significant owners of your Funds and, therefore, we are very mindful of any actions that would not be in the best interests of the Funds.

At times we have felt that we were totally out of step with the rest of the industry. For over thirty years, we have taken corporate governance as a critically important element in the management of our business. We have found it interesting to watch how the investment industry’s nomenclature has changed over the years. We have witnessed the growing tendency by which investment management firms and financial conglomerates refer to their business as a process of “gathering assets” and that their investors are to be viewed as “customers.” These are the terms that marketing professionals use and not those of investment stewards. At FPA, we refer to our investors as either clients or shareholders and not as customers. In our opinion, our terms denote a higher level of meaning and importance. In essence, we view our clients and shareholders as partners. In a solid partnership, one does not seek to disadvantage one’s partners. This industry trend toward a marketing focus can create a culture that is prone to excess. Despite this trend, our firm remains focused on investing and not marketing. In fact, we have no in-house marketing professionals for either institutional separate accounts or mutual funds. We have only client service professionals. It is with a sense of pride that we can mention that our firm has been included in two recent articles that speak of firms that consider their investors’ needs first. In the October issue of Money Magazine, Jason Zweig’s article, “The Great Fund Rip-Off,” refers to the FPA Funds positively, while The Street.com’s October 13 article, “Three Good Things Fund Managers Do,” highlights several firms positively and, again, the FPA Funds are included.

We, the Principals of FPA, as well as the rest of our associates, can assure you, our partners, that the protection and growth of your assets is paramount in our thinking. Your success is our success. We thank you for the trust that you have placed in us, and we promise to continue to earn it every day.

Sincerely,

Robert L. Rodriguez
Principal and Chief Executive Officer

J. Richard Atwood
Principal and Chief Operating Officer