# Two Decades of Winning by Not Losing
## *Performance Disclosure*

**You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.**

### Average Annual Total Returns

| As of Date: 3/31/17 | Since 6/2/93 | 20 Years | 15 Years | 10 Years | 5 Years | 3 Years | 1 Year | YTD | QTR | Market Cycle Performance 10/10/07-3/31/17 | Market Cycle Performance 3/25/00-10/9/07 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FPA Crescent Fund | 10.42 | 9.19 | 8.49 | 7.02 | 8.47 | 5.27 | 14.19 | 3.37 | 3.37 | 6.75 | 14.70 |
| S&P 500 | 9.31 | 7.86 | 7.09 | 7.51 | 13.30 | 10.37 | 17.17 | 6.07 | 6.07 | 6.74 | 2.00 |
| MSCI ACWI | - | - | - | - | 8.37 | 5.08 | 15.04 | 6.91 | 6.91 | 2.84 | - |
| 60% S&P500/ 40% BBgBarc US Agg | 8.02 | 7.17 | 6.39 | 6.52 | 8.94 | 7.38 | 10.26 | 3.95 | 3.95 | 6.06 | 3.97 |
| CPI | NA | 2.13 | 2.10 | 1.73 | 1.27 | 1.10 | 2.45 | 0.30 | 0.30 | 1.66 | 2.75 |

Periods greater than one year are annualized. Performance is calculated on a total return basis which includes reinvestment of all distributions.

**Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. The Fund's expense ratio as of its most recent prospectus is 1.09%. A redemption fee of 2% will be imposed on redemptions within 90 days. Current month-end performance data may be obtained at www.fpafunds.com or by calling toll-free, 1-800-982-4372.**

The Fund commenced investment operations on June 2, 1993. The performance shown for periods prior to March 1, 1996 reflects the historical performance of a predecessor fund. FPA assumed control of the predecessor fund on March 1, 1996. The FPA Crescent Fund's objectives, policies, guidelines and restrictions are, in all material respects, equivalent to those of the predecessor fund.

S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market. Barclays Aggregate Index provides a measure of the performance of the U.S. investment grade bonds market, which includes investment grade U.S. Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1 year remaining in maturity. In addition, the securities must be denominated in U.S. dollars and must be fixed rate, nonconvertible, and taxable. The Consumer Price Index is an unmanaged index representing the rate of the inflation of the U.S. consumer prices as determined by the U.S. Department of Labor Statistics. There can be no guarantee that the CPI of other indexes will reflect the exact level of inflation at any given time. The CPI shown here is used to illustrate the Fund's purchasing power against changes in the prices of goods as opposed to a benchmark which is used to compare Fund's performance. 60% S&P500/ 40% Barclays Aggregate Index is a hypothetical combination of unmanaged indices comprised of 60% S&P 500 Index and 40% Barclays Aggregate Index, the Fund's neutral mix of 60% stocks and 40% bonds. These indices do not reflect any commissions or fees which would be incurred by an investor purchasing the stocks they represent. The performance of the Fund and of the Indices is computed on a total return basis which includes reinvestment of all distributions. It is not possible to invest in an index.

Market Cycle Performance reflects the two most recent market cycles (peak to peak) defined as a period that contains a decline of at least 20% from the previous market peak over at least a two-month period and a rebound to establish a new peak above the prior market peak. The current cycle is ongoing and thus presented through the most recent quarter-end. Once the cycle closes, the results presented may differ materially.

***The following is adapted from a recent speech given by Steven Romick***

To some of you, all Americans are exactly alike. I may as well be President Trump. Like him, you have no idea what I'm about to say.

Well, check that: it often seems he has no idea what he's about to say, and that's a major source of uncertainty in all of our lives, both personally and professionally… that can create an insecurity on which much of the business media preys.

The business media, like President Trump, looks for winners and losers…. They'll highlight the stocks *du jour* that are either performing really well, and then, in the next breath, show a graphic of those that tanked. Stocks go up…. Stocks go down…. Sectors do well, sectors do poorly. It's entertainment. Ultimately, I don't find it very valuable. It's no more than tabloid reporting. It's their version of who is sleeping with whom and who has fallen off the wagon. Short-term market price movement does not tell us anything about long-term value.

At any given moment, the media highlights whichever few stocks are driving the stock market. In the U.S. in 2015, it was the FANG stocks – Facebook, Apple, Netflix, and Google.

In the UK in 2016, it was just three rebounding commodity companies and one financial that accounted for more than three-quarters of the FTSE's 14.4% return.[1]

For as long as I've been investing, it has generally been the case that just a few stocks drive these indices; and that these few stocks pull the lesser performing stocks along with them. The investing community has come to define this law of financial physics as "positive skew."

"Positive skew" now joins "active share" in that lexicon.

Passive management advocates don't use this phrase to praise the active manager, but rather to poke at us.

What the passive manager would have you believe is that, thanks to exorbitant fees, to transaction costs, and to not picking winners, it's always better to index. I've read that maybe just 10% of the managers can outperform the market over time, and the odds that you will find that manager: even lower still.

Armed with some selective data, some critics of our approach say that that it is unlikely an active manager will consistently own those few stocks that drive stock returns in any given year, let alone year in and year out. Let me read you an excerpt from an essay in the Financial Analysts Journal:

"Disagreeable data are streaming out of the computers of…the... performance measurement firms. Over and over and over again, these facts and figures inform us that investment managers are failing to perform."

Charles Ellis wrote this more than 40 years ago.

So these arguments have been around a long time. But I am not here to tell you that there isn't truth to Mr. Ellis' 1975 essay, which he called: "The Loser's Game."

Fundamentally, passive investment is always going to look great during a long-lasting bull market.

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[1] *Royal Dutch Shell A; Royal Dutch Shell B, BP, HSBC Holdings, and Glencore contributed 11.1% to the FTSE Index 2016 return.*

If someone wants market rates of return and can withstand some volatility, then it can also serve as an efficient, low-cost tool. The further you get away from a bear market, the greater the number of people who have convinced themselves they can handle the downside – until the next time, of course.

In the interim, if the indices are performing well, then you can bet that many investors – individuals and professionals, alike – are going to feel pressure to do whatever they can to ride the bull.

They fear being different. Tracking error is bad. Owning too many securities in every sector is a sure way to avoid being fired for being different. I'd rather spend my time surfing than to have to invest like that.

Thanks to the accelerated increase of passive investing – now around 40% of the U.S. market – I'm confident that there will be a period when it will look really easy to beat a benchmark – followed by another time when, again, it won't.

This academic argument against active investment is fundamentally flawed because it's built on a false premise, which holds that only the best performing stocks will drive returns. The argument doesn't consider the other side…. A maxim I've taken to heart….

If you avoid the worst performing stocks, you can still put up good numbers. (I'll leave it to you to conclude if I'm just talking my book.)

Further, these critics place too much weight on performance in each year… and ignore performance over a full-market cycle.[2] This leads to short-termism. And short-termism is a breeding ground for all sorts of cognitive dissonance to which smart people fall prey when trying to adapt and join the crowd.

People viewed the internet as a fast-growing disruptive game changer in the late 1990s. And so it was, but as you know, internet stocks of that era were largely priced at wholly illogical levels.

Yet, many smart people couldn't handle not participating. Maybe they were worried about not making as much as their friends. Or maybe they were worried about being fired. Whatever the reason, if they participated they generally lost badly.

In 2008, we sat on the precipice of a depression and many investors quickly liquidated their stocks and bonds, believing the economy would get worse, and stocks would continue to decline. It appeared correct to do so… for a time.

Some of those who exited the market realized their mistakes and came back to the market… down the road… after the economy found firmer footing… but also after prices had already rebounded.

Short-termism.

Patience, a long-term focus, and avoiding the fads are key for successful investing. Some of the most successful stock investors of the last few decades in the United States aren't known for finding the latest and greatest.

I give you as just a few examples: Warren Buffett, Seth Klarman, Jean-Marie Eveillard, and my former partner of two decades, Bob Rodriguez. Each compiled a long track record respected by investors of all types.

Each had their share of winners, but none created their enviable performance by owning those few golden stocks of a given year. They won by not striking out, rather than by hitting grand slams. In other words, they won by not losing – emblematic of our approach.

[2] *Steven Romick and Ryan Leggio, "The Importance of Full Market Cycle Returns." See: http://fpafunds.com/docs/special-commentaries/2015-04-29-market-cycle-performance-final.pdf?sfvrsn=2*

We allow ourselves the opportunity to participate on the upside… while protecting ourselves on the downside…. And we focus, more centrally, on fundamental research on companies that can create value over time.

I'd like to show you from my own experience in managing money over the last few decades, that some of the best investment decisions in my career have been acts of omission – avoiding those securities, industry sectors, and asset classes that we believed offered a poor risk versus reward.

FPA's Crescent Fund ("the Fund") operates with a global, go-anywhere mandate and invests across the capital structure, using mostly stocks and corporate bonds to seek equity rates of return, while, at the same time, avoiding a permanent impairment of capital.

Let's look at just the stock returns of our FPA Crescent Fund[3] in this past decade (gross of fees). You can see there were times we underperformed. When compared to the global indices, we underperformed in just one year of the past ten. When compared to the U.S. market, we underperformed in three. Our worst relative showing was just -2.4% vs the S&P 500 in 2015. Our average underperformance of these four years was just -1%.

### Active security selection drives differentiated returns[3]

| | Q1 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FPACX long equity | 7.35% | 15.19% | -1.04% | 13.67% | 39.62% | 17.69% | 6.25% | 22.30% | 38.39% | -38.27% | 11.47% |
| MSCI ACWI | 6.91% | 7.86% | -2.36% | 4.16% | 22.80% | 16.13% | -7.35% | 12.67% | 34.63% | -42.19% | 11.66% |
| Alpha vs. MSCI ACWI | 0.44% | 7.33% | 1.32% | 9.51% | 16.82% | 1.56% | 13.60% | 9.63% | 3.76% | 3.92% | -0.19% |
| S&P 500 | 6.07% | 11.96% | 1.38% | 13.69% | 32.39% | 16.00% | 2.11% | 15.06% | 26.46% | -37.00% | 5.49% |
| Alpha vs. S&P 500 | 1.28% | 3.23% | -2.42% | -0.02% | 7.23% | 1.69% | 4.14% | 7.24% | 11.93% | -1.27% | 5.98% |

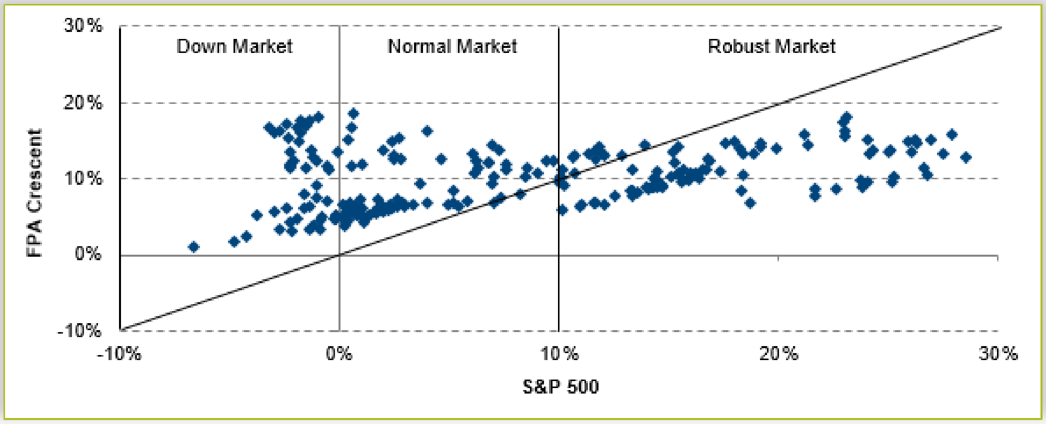
There were five instances where our equity holdings outperformed the global indices by more than 5%; and, there were four instances where we outperformed the U.S. market by the same percent. The average alpha delivered in the years when we bettered our benchmarks was 6-7%.

This has aggregated into some poor periods when the bulls were a runnin'. Our fund has underperformed about 87% of the time when the S&P 500 has booked a trailing five-year return in excess of 10%.

However, we beat the market in 100% of the trailing five-year periods when the market declined; and, almost 98% of the time when the trailing five-year returns fell in the 0-10% range. In addition, unlike the S&P 500, FPA Crescent has had positive performance in every rolling five-year period. We exceeded our goal of doing as well as the market mostly by avoiding permanent impairments of capital. This is in line with how we expect the Fund to perform.

[3] *The FPA Crescent Fund discussed in this adapted speech and the performance data reflected herein is based upon the long equity segment of the Fund, and is provided as supplemental information. Performance is presented gross of investment management fees, transactions costs, and operating expenses, which if included, would reduce the returns presented. Performance for 2017 is through March 31, 2017.* ***Past performance is no guarantee of future results. Please refer to the end of the adapted speech for important disclosures.***

## 5-year rolling returns by market type since inception[4]




| | Down Market – 5yr average return below 0% | Normal Market – 5yr average return 0-10% | Robust Market – 5yr average return above 10% |
|---|---|---|---|
| FPACX Average | 9.54% | 8.71% | 11.36% |
| S&P 500 Average | -1.81% | 3.30% | 17.42% |
| FPACX Outperformed in | 100% of periods (49 of 49) | 97.5% of periods (77 of 79) | 13.3% of periods (13 of 98) |

Our way of investing gets little play from the broad business press. That's a blessing, not a complaint. The reasons for this are that there are very few like us in the public arena who practice value investing without arbitrary capital structure, asset class, or geographic borders.

Frankly, in this age of Instagram and Snapchat… when immediate gratification seems to rule our lives, few portfolio managers have the patience to remain disciplined through their inevitable difficult periods, and even fewer clients are willing to stay with their underperforming managers.

Thanks to poor relative performance in the late 1990s, and lacking Berkshire Hathaway's permanent capital, or the long lock-up capital of Mr. Klarman's Baupost Group, from 1997-2000 First Pacific Advisors (FPA) and Monsieur Eveillard's firm First Eagle saw assets under management drop by more than 50%. Now, both firms received a lot of flak at the time. But we argued that we were taking the prudent approach in protecting our clients' capital.

This cautious stance can bruise a business in the near-term, but in the long-term, it benefited those clients who stuck around. As I wrote when Bob retired from FPA this past December, "He taught all of us what it's like to put investors first, whether they like it or not."

I'm not going to lie. I'd love to be loved all the time. But you can't be a value investor and expect that. If I want to win over time, I'll just have to settle for periodic appreciation.

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[4] *Source: Morningstar Direct. The chart illustrates the monthly five-year rolling average returns for the Fund from July 1, 1993 (the first full month of performance since inception) through March 31, 2017 compared to the S&P 500 Index. The horizontal axis represents the five-year rolling average returns for the Index, and the vertical axis represents the Fund's five-year rolling average returns. The diagonal line illustrates the relative performance of the Fund vs. the Index. Points above the diagonal line indicate the Fund outperformed in that period, while points below the line indicate the Fund underperformed in that period. The table categorizes returns for three distinct market environments: a "down market" is defined as any period where the five-year rolling average return for the Index was less than 0%; a "normal market" is defined as any period where the five-year rolling average return for the Index was between 0-10%; and a "robust market" is defined as any period where the five-year rolling average return for the Index was greater than 10%. There were 226 five-year rolling average monthly periods between July 1, 1993 and March 31, 2017.* ***Past performance is no guarantee of future results. Please refer to the end of the presentation for important disclosures.***

There's risk to operating in our unconstrained idiosyncratic fashion. We won't be fully invested at all times regardless of valuation. And, although we may be avoiding losers, there will be times when our winners aren't keeping up with the market. This will periodically lead to relatively poor performance; and, we will invariably lose clients as a result.

We will avoid whole sectors of the market for years, if not decades. We benefited by not owning technology stocks when they declined 78% from 2000 to 2003.[5] It also helped that we didn't own much by way of financials in the 2007 to 2009 time frame, as they collectively declined 76%.[6]

Since we aren't closet indexers, our returns will therefore usually look vastly different than our benchmarks – for better and worse.

As an unconstrained manager, we don't have to do anything… and we certainly don't have to do everything.

Think of all of these companies that this approach can help you avoid…

You know… we have to make a **Valeant** effort to always **PayLess** as we travel **Countrywide** and make our **Global Crossings** to find our **Blockbuster** investments. We might as well take a deep breath of the **Swissair**…as we seek our **Barings**….


I know by reading the financial press that many firms like to offer a degree of certainty, even though they're not allowed to actually promise anything. They use words to offer investors a confidence that their rates of return will be stable… will be solid… maybe offering a visual of a calm sea.

Our approach does not offer certainty. Because we're different, we may even breed insecurity.

We do what we think is best to deliver our clients a good risk-adjusted return. We believe we have shown that it is advantageous over time to operate with such a broad charter.

Let me give you some specifics.

First, I want to take you through the history of our firm… which will give you a sense of our values….

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[5] *Russell 3000 Technology sector declined -78.14% from 3/22/00 to 3/11/03. Source: Morningstar.*
[6] *Russell 3000 Financials sector declined -76.18% from 10/7/2007 to 3/9/2009. Source: Morningstar.*

I started our Contrarian Value go-anywhere strategy in 1990, and introduced its flagship public mutual fund, FPA Crescent, in 1993. Not long after joining FPA in 1996, I found myself in the middle of the biggest valuation bubble in seventy years.

Compared to any broad equity benchmark, the Fund's performance in 1998/99 was pretty horrible. Market valuations reached levels we'd never seen, nor even read about. Yet, the capitalization-weighted indices hid something key: that many stocks were very very inexpensive. Small-cap stocks were trading at the biggest discount to large-caps stocks in history, and were absolutely cheap. High yield bonds were inexpensive as well, trading with double-digit yields.

Thanks to the pricing disparity between the loved and unloved, we were able to make money in each of the subsequent three years post-1999, even though the broad U.S. market dropped each year. We simply avoided the detritus as it cascaded from peaks that should never have been scaled. That was good enough to place us way ahead of the benchmark for the five years, even though we started deeply in the hole.

By the way, we didn't own any of the best performing stocks in the Russell 3000 in any of those five years, but we didn't own any of the worst performing stocks either.

This was the Fund's first big test and we passed it by avoiding losses. Although our patience and discipline allowed us to prevail, that didn't benefit the majority of the fund's investors who capitulated along the way.

Amidst scant opportunities, I closed to new capital in 2005. The best way to avoid unnecessary losses is by understanding what you own (or might own) – the business and its industry. I therefore focused on building a best in class research team in order to ensure we could continue to win by not losing.

Our second big test came in 2007. A few years earlier, we had begun to document the rapid rise of subprime debt and the attendant risks faced by many overleveraged and overvalued financial institutions. In order to effectively frame the opportunity, we need to understand both risk and reward. Determining what can go wrong enables us to evaluate the downside.

Evaluating the potential return is the other part of the equation.

Stock and corporate bond valuations weren't low enough to justify the risks of excessive leverage in the system, so we positioned ourselves conservatively. By October 2007, we had 45% in cash (close to an all-time high) and just 4% in high yield (which, at the time, was an all-time low). And yet, the Fund was still able to best the market that year although we did own one of the top five performing stocks.[7]

We communicated to our clients why we were maintaining such a cautious posture and this time they trusted our rationale. We were therefore prepared when the markets wilted in 2008. Our fund declined as well but our losses were just 55% of the market's (S&P 500).

In late 2008 and early 2009 we used our cash hoard to aggressively buy distressed corporate bonds, many of which offered yields-to-maturity in excess of 20%. The high yield market rebounded quickly and our new investments were drivers of our 2009 return, allowing us to outperform the market once again without any of the top five performing stocks. If one were to look at 2008 and 2009 cumulatively, winning by not losing allowed us to be one of the few managers in our space to book positive performance.

This brings us to today, with an impending third test due to come before too long – or, maybe too long, but one day. The S&P 500 is in its 99th month of a bull market – the second longest since 1926. The US market hasn't had at least a 20% correction since 2009; while, the US economy is in its ninth year of economic expansion – the third longest since 1900.[8] US stocks currently trade at historically high valuations, supported more by low interest rates than by earnings growth.[9]

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[7] *The FPA Crescent Fund owned Chevron in 2007, which was the fifth largest contributor to the S&P 500's return that year.*
[8] *JPMorgan First Quarter 2017 Guide to the Markets.*
[9] *US stocks (as measured by the Shiller P/E and Price/Sales) are trading at the second richest valuation since WW II and the median S&P 500 and MSCI ACWI stock (as measured by price to earnings and price to sales) are trading at levels higher than the*

On the other hand, stock markets in the UK, the rest of Europe, and Asia ex-Japan have seen their markets suffer 20% drawdowns in the last couple of years – making them relatively cheaper. This leaves global valuations looking a bit better than the US, but the median MSCI ACWI stock still trades at levels higher than the prior two market peaks; while, Asian and Emerging Market stocks are trading closer to their median valuation. For the most part, we would argue that the valuation disparity reflects more of a relative value when compared to overpriced markets, than absolutely cheap offering great investment opportunity.[10] I also will offer that like-to-like on a business quality comparative, companies in these markets are not as inexpensive as they might at first appear.

As a result, we aren't finding many investments where the juice is worth the squeeze. It feels like it's a better time to emphasize avoiding losses rather than seeking gains.

Nevertheless, we've made a few investments that are interesting.

The travails of Sears Holdings in the U.S. have been broadly covered. It's even poorer relation just north of the border, Sears Canada, is less well-known.

Sears Canada faces the same existential challenge as so many other retailers, as it sells non-price competitive products out of an over-sized box in an increasingly empty mall versus the greater breadth, pricing, and ease of delivery available online.

Sears Canada could very well go bankrupt at some point.

Therein lies an opportunity for those with capital. Sears Canada needs money and we were happy to lend them some.

Given our view of Sears Canada's tenuous finances, we underwrote the loan, focusing on its liquidation value, independent of the company remaining a going concern. We have secured collateral in the form of inventory, receivables, and real estate – about 1.7x the loan amount – so if the company doesn't make it, we should still be paid in full. Thanks to a 2% commitment fee and annual interest of LIBOR plus 9.75%, we should have at least an 11.3% IRR[11]. I say "at least" because in the event the company were to restructure prior to maturity, our IRR would be higher, particularly if it happens inside of three years when we would be due an additional prepayment fee. Our projected return is almost six points better than the current 5.5% yield-to-worst of the U.S. high yield market, and higher than what we suspect the stock market might do.

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*last two market peaks. US small cap stocks now trade at their highest level ever using Cyclically Adjusted P/Es (CAPE) – 56x earnings.*

[10] *Asian, European, and Emerging Market stocks are trading at closer to median CAPE ratios. The US high yield market once again is trading near its lowest yield. The European high yield market is at its lowest yield.*

[11] *Internal rate of return (IRR) is a metric used in capital budgeting measuring the profitability of potential investments. Internal rate of return is a discount rate that makes the net present value of all cash flows from a particular project equal to zero.*

### Sears Canada Secured Loan[12]

Terms
- Coupon — Libor + 9.75%
- Commitment fee — 2%

Asset coverage
- Loan made with liquidation in mind, not as a going concern
- Secured by inventory, receivables, and real estate
- Loan-to-value — <60%

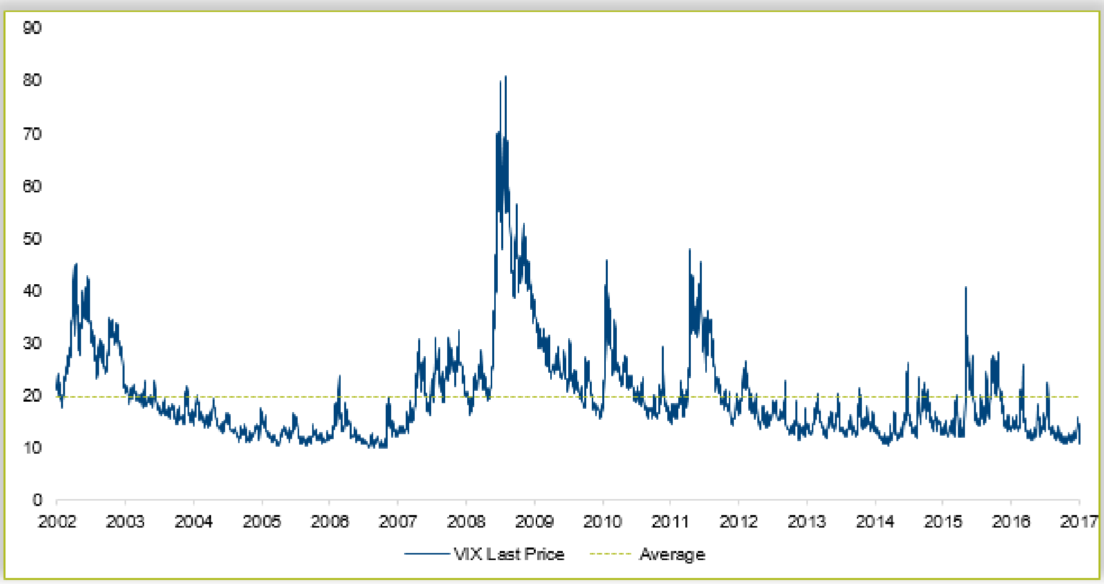
Return potential
- Budgeted IRR — 11.3%

I realize talking about a possible 11% return may not get you terribly excited, but we believe it's an intelligent use of capital, particularly more so in the context of such low interest rates, our low expectations for equity returns, and a high level of confidence in the loan's ultimate repayment.

I'll share another investment idea that's a bit more idiosyncratic and one that I believe can allow an investor to monetize the view that volatility will eventually return to the markets. It's fairly common knowledge that stock volatility is unusually low. I'm going to speak more generally as this is a trade that we have not yet fully executed.

Equity volatility in the US—as measured by the CBOE Volatility Index[13] or "VIX"— trades well below its average and close to its all-time low. Investors have priced in negligible risk.

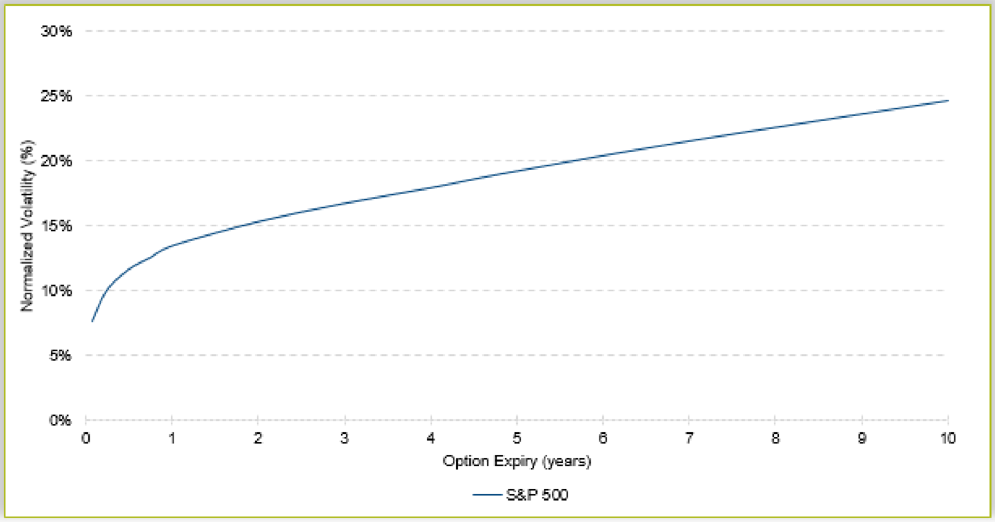
### CBOE Volatility Index (VIX)[14]




[12] *Source: FPA and company reports. As of 3/31/2017, Sears Canada represented 0.1% of the Fund's total net assets. Libor stands for London interbank offered rate and is a benchmark rate that serves as the first step to calculating interest rates on various loans throughout the world. IRR stands for Internal Rate of Return and is the interest rate at which the net present value of all expected cash flows from a project or investment equal zero. Portfolio composition will change due to ongoing management of the Fund.*
[13] *The current VIX index value quotes the expected annualized change in the S&P 500 index over the next 30 days, as computed from current market prices for all OTM calls and puts for the front-month and second-month VIX futures expirations. The goal is to estimate the implied volatility of the S&P 500 over the next 30 days.*
[14] *Source: Bloomberg. Last data point as of April 24, 2017. Volatility is a statistical measure of the dispersion of returns for a given security or market index.*

It's logical to want to position oneself to profit from some kind of reversion to the mean. Unfortunately, the term structure[15] of implied volatility for the S&P 500 is upward sloping, or in "contango."

**Implied Volatility – S&P 500[16]**

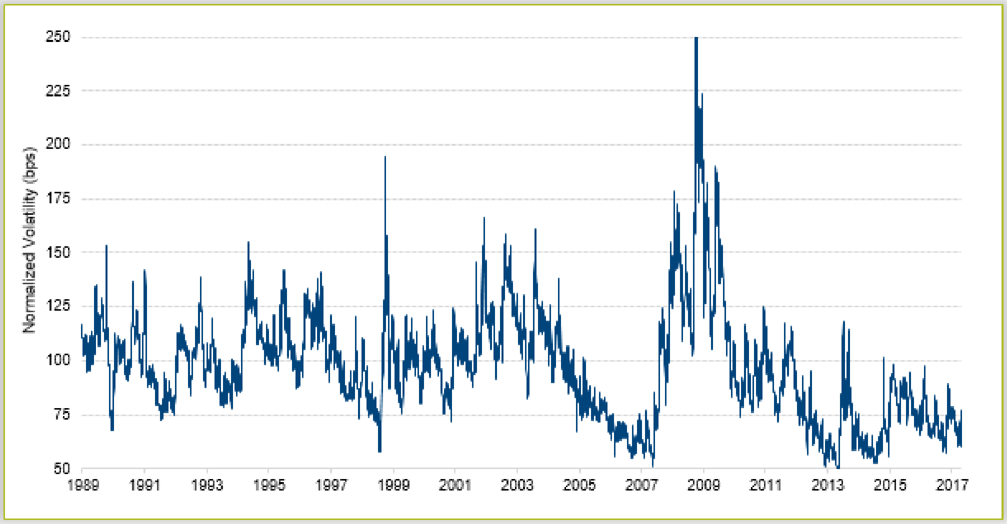



This means that if one were to be long equity volatility, one would have to continually purchase near-dated futures contracts at higher prices than the current spot market. As the future contract migrates to spot, this "negative roll yield" leads to an expensive "decay" where you could lose 50-100% of your invested capital in the next year. We prefer those investments where time is your friend, rather than your enemy.

It's not just stock volatility that's at historic lows though; interest rate volatility is at its nadir as well. The Merrill Lynch Option Volatility Estimate Index[17], known as the "MOVE Index" illustrates this. It is to bonds what VIX is to equities.

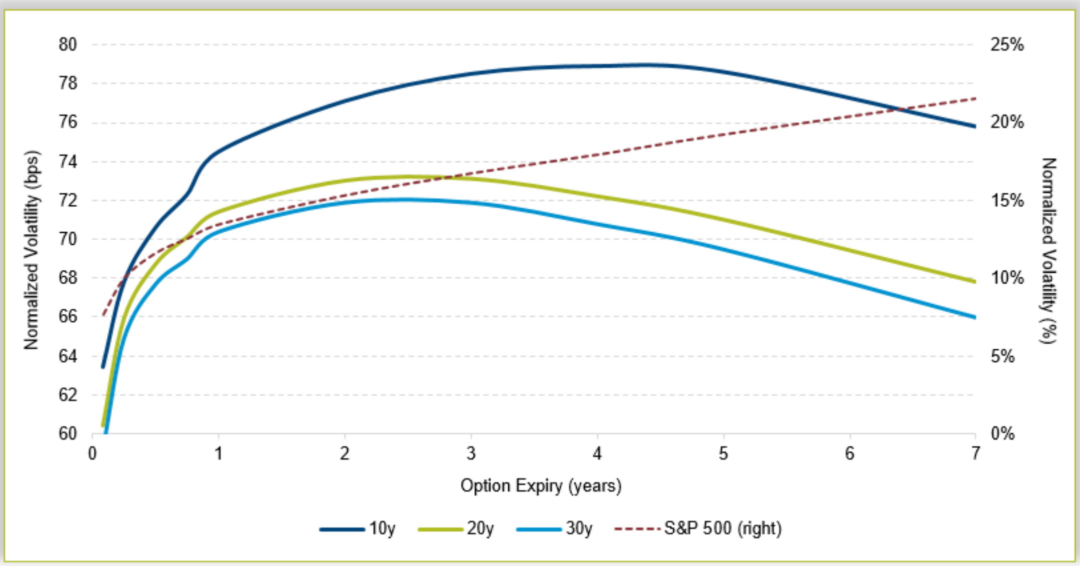
[15] *The interest rate yield curve is also called the "the term structure of interest rates." The same concept applies here: you can plot implied volatility over time (i.e., term).*
[16] *Source: Bloomberg. Last data point as of May 1, 2017.*
[17] *This is a yield curve weighted index of the normalized volatility for 1-month USD rate options. It is the weighted average of 1m2y, 1m5y, 1m10y, and 1m30y USD rate implied volatilities with weights of 0.2/0.2/0.4/0.2.*

### US Interest Rate Implied Volatility – MOVE Index[18]




Unlike equity volatility, the US Dollar interest rate forward curve[19] for implied volatility is currently downward-sloping, or in "backwardation"

### Implied volatility – USD interest rates (left) and S&P 500 (right)[20]




Through various investment instruments, one can purchase volatility at a point in the future at prices lower than spot – about as low as it's ever traded. This offers some protection to one's long book, while having a positive carry – a high single to low teens current yield.

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[18] *Source: Bloomberg. Last data point as of May 2, 2017. The Merrill Lynch Option Volatility Estimate Index or "MOVE Index" is a blended measure of implied normalized volatility for one-month U.S. dollar interest rate options across the yield curve; in other words, the MOVE Index is to bonds as the VIX is to equities. This is a yield curve weighted index of the normalized volatility for 1-month USD rate options. It is the weighted average of 1m2y, 1m5y, 1m10y, and 1m30y USD rate implied volatilities with weights of 0.2/0.2/0.4/0.2.*
[19] *20y and 30y USD rates.*
[20] *Source: Bloomberg, FPA. As of May 5, 2017.*

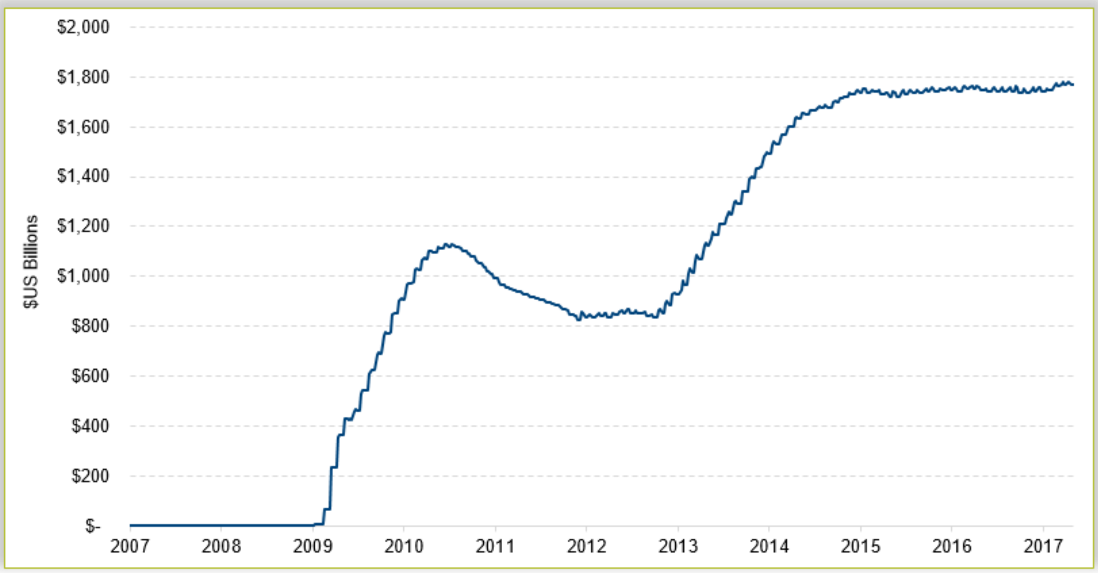
Since we are already at historic lows in the US, we find that this trade offers compelling asymmetry, the potential for great upside with what should be negligible downside – unless we move to a Japan-like deflationary scenario.

### Potential Gross Return Scenarios [21]

| Roll To Spot | 2007 Low | 2011 High | Upside/ Downside | 2008 High | Japan Low | Upside/ Downside |
|---|---|---|---|---|---|---|
| 11% | 2% | 60% | N/A | 120% | -35% | 3.4 |

One explanation for why such an atypical trade exists is that it is another unintended consequence of Central Bank action. In this case, due to the US Fed having purchased ~$1.8 trillion of agency mortgage-backed securities since 2009 from the likes of the GSEs (Fannie Mae and Freddie Mac), mortgage REITS, and hedge funds – each of which hedged their naturally 'short volatility' position by going 'long' volatility.[22] Since the Fed does not hedge its huge mortgage book, this has created a circumstance in the market that hopefully allows one to make money while waiting for volatility to revert to its higher mean.

### US Federal Reserve Ownership of Agency MBS[23]




Winning by not losing means to focus on both commission and omission – that is, both what you put in your portfolio and what you don't.

As an example of successful omission, I suggested in a mid-2015 speech that I thought it made sense to avoid Grainger, a US-domiciled industrial distributor that was trading at 19 times its current year's earnings estimate.[24] As well-run as this company was – and is – it's still just a middleman, distributing products made by others that was collecting a 43%+ gross margin – an unusual margin for a company that exists to move a widget from one warehouse to another. With such a large pricing umbrella, it's no

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[21] *Source: FPA estimates. These potential gross return scenarios reflect levels of volatility implied via USD interest rate swaption prices both seen today ("Roll to Spot") and previously reached during 2007 ("2007 Low"), 2008 ("2008 High"), and 2011 ("2011 High"), as well as via JPY interest rate swaption prices both seen today and previously reached during 2007 and 2008 (together, "Japan Low").*

[22] *https://www.bloomberg.com/news/articles/2017-02-06/the-mortgage-bond-whale-that-everyone-is-suddenly-worried-about*

[23] *Source: Federal Reserve Bank of St. Louis. Last data point as of May 3, 2017. MBS stands for mortgage-backed securities.*

[24] *Steven Romick, "Don't Be Surprised." A speech to the CFA Society of Chicago, June 25, 2015. See: http://www.fpafunds.com/docs/special-commentaries/cfa-society-of-chicago-june-2015-final1.pdf?sfvrsn=2*

wonder that Amazon has targeted industrial distribution as a sector ripe for the picking. Amazon believes they can disintermediate industrial resellers just as they have high street retailers.

We concluded that Grainger would face revenue and margin pressure. Since then, Grainger has missed earnings for 3 of the last 8 quarters, revenues have been less than forecast, its gross margin has declined by almost three points, and its earnings have declined almost ~15%.[25]

Amazon is still early in developing this business and it's too hard to know what will happen; and even though Grainger's stock has since declined more than 25%, I still wouldn't buy shares on the hope that they figure out a way to beat the Everything Store.

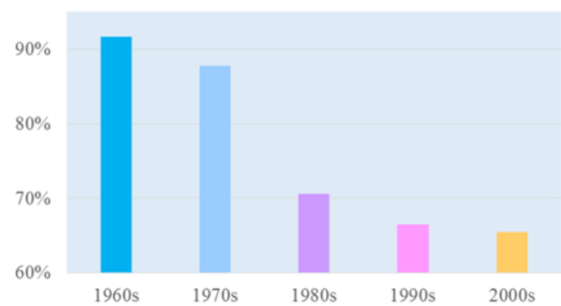
We regret not buying Amazon a few years ago – an error of omission. However, avoiding those businesses that Amazon is likely to disrupt is essentially making the same trade.

Winning by not losing.

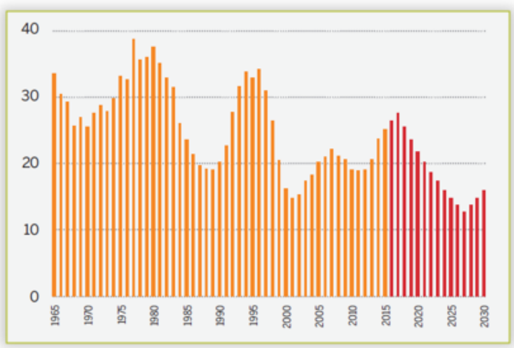
Innovative technology is driving business transformation faster than ever before. As a result, the expected tenure of a company in the S&P 500 is expected to drop from 25 years to 14 years.[26] We want to avoid those companies whose businesses are existentially challenged. Many of these will end up being the worst stock performers in the coming years. Since 1995, the worst performing 10% of stocks in the S&P 500 have detracted -3.3% on average annually from the S&P's annual return, or 35% of that index's annual average return. Sidestepping them would have been good for one's financial health.

**Corporate mortality** [27]

Likelihood of surviving
the first five years of listing




Average company lifespan on S&P 500 Index
in years (rolling 7-year average)




FPA Crescent's overlap with the large S&P 500 index contributors has been minimal since inception, though it has picked up in recent years as market opinion has gradually converged to our 2011 conclusion that large-cap tech companies were inexpensive and unlikely to be dethroned anytime soon. What's been rarer is for us to have held a top 5 loser – occurring only six times since 1995 and smaller average positions than our winning longs. And, on two occasions, we were short a top five index detractor.

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[25] *Bloomberg, Grainger Q1 2017 Earnings Release.*
[26] *Innosight. "Corporate Longevity: Turbulence Ahead for Large Organizations." Spring 2016.*
[27] *Source: Left chart: Govindarajan, Vijay and Srivastava, Anup, Strategy When Creative Destruction Accelerates (September 7, 2016). Tuck School of Business Working Paper No. 2836135. Right chart: Innosight. "Corporate Longevity: Turbulence Ahead for Large Organizations." Spring 2016.*

## S&P 500's Top 5 Annual Contributors/Detractors owned by FPA Crescent Fund[28]

### Largest Contributors

| | |
|---|---|
| General Electric Company | Exxon Mobil Corporation |
| Merck & Co., Inc. | Cisco Systems, Inc. |
| Altria Group, Inc. | AT&T Inc. |
| The Coca-Cola Company | Bank of America Corporation |
| Exxon Mobil Corporation | Chevron Corporation |
| Intel Corporation | Exxon Mobil Corporation |
| General Electric Company | Apple Inc. |
| Microsoft Corporation | AT&T Inc. |
| The Coca-Cola Company | Alphabet Inc. |
| International Business Machines Corporation | Chevron Corporation |
| General Electric Company | Wal-Mart Stores, Inc. |
| Microsoft Corporation | Amgen Inc. |
| The Coca-Cola Company | Anheuser-Busch Companies, LLC |
| Bristol-Myers Squibb Company | McDonald's Corporation |
| Pfizer Inc. | Gilead Sciences, Inc. |
| Microsoft Corporation | Apple Inc. |
| Wal-Mart Stores, Inc. | Microsoft Corporation |
| General Electric Company | International Business Machines Corporation |
| Alcatel-Lucent USA Inc. | Alphabet Inc. |
| Intel Corporation | JPMorgan Chase & Co. |
| Microsoft Corporation | Apple Inc. |
| Cisco Systems, Inc. | General Electric Company |
| General Electric Company | Citigroup Inc. |
| Wal-Mart Stores, Inc. | Exxon Mobil Corporation |
| Oracle Corporation | Chevron Corporation |
| Merck & Co., Inc. | Apple Inc. |
| American International Group, Inc. | Exxon Mobil Corporation |
| Altria Group, Inc. | International Business Machines Corporation |
| Pfizer Inc. | Pfizer Inc. |
| Warner-Lambert Company LLC | Philip Morris International Inc. |
| Microsoft Corporation | Apple Inc. |
| International Business Machines Corporation | Bank of America Corporation |
| Wal-Mart Stores, Inc. | JPMorgan Chase & Co. |
| Bank of America Corporation | General Electric Company |
| Dell Technologies Inc. | Wells Fargo & Company |
| The Procter & Gamble Company | Alphabet Inc. |
| Bank of America Corporation | Microsoft Corporation |
| Merck & Co., Inc. | General Electric Company |
| Boston Scientific Corporation | Johnson & Johnson |
| Pharmacia LLC | Exxon Mobil Corporation |
| Intel Corporation | Apple Inc. |
| General Electric Company | Microsoft Corporation |
| Citigroup Inc. | Berkshire Hathaway Inc. |
| Cisco Systems, Inc. | Intel Corporation |
| Exxon Mobil Corporation | Wells Fargo & Company |
| Exxon Mobil Corporation | Amazon.com, Inc. |
| General Electric Company | Microsoft Corporation |
| Johnson & Johnson | General Electric Company |
| Bank of America Corporation | Facebook, Inc. |
| eBay Inc. | Alphabet Inc. |
| Exxon Mobil Corporation | JPMorgan Chase & Co. |
| Altria Group, Inc. | Exxon Mobil Corporation |
| Apple Inc. | AT&T Inc. |
| UnitedHealth Group Incorporated | Apple Inc. |
| HP Inc. | Chevron Corporation |

### Largest Detractors

| | |
|---|---|
| Toys "R" Us Inc. | Intel Corporation |
| Sears Holdings Corporation | Yahoo! Inc. |
| TCI Group | eBay Inc. |
| Archer-Daniels-Midland Company | Amgen Inc. |
| Morgan Stanley Group Inc. | UnitedHealth Group Incorporated |
| AT&T Corp. | Citigroup Inc. |
| CBS Corporation | Bank of America Corporation |
| Bay Networks, Inc. | Merrill Lynch & Co., Inc. |
| TCI Group | American International Group, Inc. |
| Digital Equipment Corporation | Comcast Corporation |
| 3Com Corporation | General Electric Company |
| HCA Holdings, Inc. | Bank of America Corporation |
| NIKE, Inc. | Citigroup Inc. |
| Eastman Kodak Company | American International Group, Inc. |
| The Boeing Company | Microsoft Corporation |
| Citicorp | Exxon Mobil Corporation |
| Schlumberger Limited | Citigroup Inc. |
| The Boeing Company | General Electric Company |
| Avis Budget Group, Inc. | The Procter & Gamble Company |
| Bank America Corp. | Wells Fargo & Company |
| Altria Group, Inc. | Microsoft Corporation |
| Compaq Computer Corp. | HP Inc. |
| Pfizer Inc. | Cisco Systems, Inc. |
| Wells Fargo Corporation | Bank of America Corporation |
| Xerox Corporation | Medtronic plc |
| Microsoft Corporation | Bank of America Corporation |
| Alcatel-Lucent USA Inc. | Citigroup Inc. |
| Cisco Systems, Inc. | The Goldman Sachs Group, Inc. |
| AT&T Corp. | HP Inc. |
| Worldcom Group | JPMorgan Chase & Co. |
| Cisco Systems, Inc. | HP Inc. |
| Dell EMC | Intel Corporation |
| Oracle Corporation | Occidental Petroleum Corporation |
| Merck & Co., Inc. | McDonald's Corporation |
| Nortel Networks Corporation | Exelon Corporation |
| General Electric Company | Newmont Mining Corporation |
| Intel Corporation | Intuitive Surgical, Inc. |
| Time Warner Inc. | CenturyLink, Inc. |
| Tyco International plc | Edwards Lifesciences Corporation |
| The Home Depot, Inc. | Teradata Corporation |
| Merck & Co., Inc. | Amazon.com, Inc. |
| Schering-Plough Corporation | Exxon Mobil Corporation |
| Verizon Communications Inc. | International Business Machines Corporation |
| AT&T Corp. | General Electric Company |
| AT&T Inc. | Chevron Corporation |
| Pfizer Inc. | Kinder Morgan, Inc. |
| Intel Corporation | Exxon Mobil Corporation |
| Cisco Systems, Inc. | QUALCOMM Incorporated |
| Merck & Co., Inc. | Wal-Mart Stores, Inc. |
| The Coca-Cola Company | Berkshire Hathaway Inc. |
| Dell Technologies Inc. | Allergan plc |
| International Business Machines Corporation | Gilead Sciences, Inc. |
| Verizon Communications Inc. | Alexion Pharmaceuticals, Inc. |
| Pfizer Inc. | CVS Health Corporation |
| eBay Inc. | Regeneron Pharmaceuticals, Inc. |

Our approach isn't painless; to which I can sorely attest. I'm not going to tell you it was easy to come into the office from 1999 to early 2000 and get fired every day, as our Fund was losing 80% of its assets.

After I lived through such business devastation and ego realignment once, I knew I could do it again, giving validation to Nietzsche's observation, "What does not kill him, makes him stronger."

Watching others do better bruises the ego of the investment professional. And it's hard for clients who watch their neighbors make money when they're not. That, in turn, can place external pressure on the investment manager who might seek to appease the client in order to protect their business.

We frame our investment discussions about where we want to be in ten years. That makes the daily decisions easier. Sometimes, it means that we do nothing. For some, that's hard to do and for others it's impossible.

Bull markets breed a certain complacency that leads many to assume more risk in their portfolios. In an effort to maximize returns, people want to see every dollar working for them. Cash sitting around earning negligible returns can be viewed as an abdication of responsibility.

We will be fired at times as a result. We were hired to do what we think is right, which is the best way to protect one's business (and reputation) – recognizing that sometimes we will be wrong. Therefore, we shop when goods are on sale, and when product is marked up, look for what we might want to buy in the future.

More importantly, consider how cash performs when there are historically high valuations, typically the time when we have more cash than usual sitting on the sidelines (as determined by bottoms up analysis, not because of a macro view). When CAPE ratio is above 25x, cash has outperformed in the subsequent rolling 5-year periods 77% of the time.[29] The CAPE ratio is 29x today.

Since I started the FPA Crescent Fund, cash has outperformed the market almost half the time over rolling 5-year periods.[30] Having cash when assets are priced to perfection generally has not been a bad

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[28] *Source: S&P CapIQ, Fund holdings. Green boxes indicate that the Fund owned a top five S&P 500 contributor or was short a top five S&P 500 detractor for that year. Red boxes indicate that the Fund owned a top five S&P 500 detractor. Of the 110 total top contributors from 1995 (earliest date available) to 2016, the Fund owned 15, or 13.6%. Of the 110 total top detractors, the Fund had exposure to a net of 4 names (6 long and 2 short), or 3.6%.*

[29] *CAPE stands for Cyclically Adjusted Price to Earnings ratio.*

[30] *On a rolling 5-year basis, since June 1, 1993, cash has outperformed the S&P 500 45% of the time and the MSCI ACWI almost 50% of the time.*

idea, although it may not serve one well over the near-term. So, in addition to avoiding the losers, having the ability to not be fully invested has allowed us to win by not losing.

I'm not arguing that holding equities for the long-term is a bad idea, but it does assume one actually holds them and doesn't panic sell at inopportune times, an affliction of both professional and personal investors alike.

I'm an optimist. Over time, I expect that there will be global economic growth and that will translate into higher asset values. We expect, however, that there will be bumps in the road and we want to make sure our portfolio has decent shocks on its chassis to absorb them. It will be important to stay the course when the going gets rough, but all the better to have some liquidity to put to work when others want or need to sell.

So after three plus decades of investing, I'm left with the following conclusions:

Think long-term, in rolling seven to ten year blocks. It's too hard to make good things happen every year, so why bother trying.

Keep your own counsel. Relying on others just gives you someone else to blame.

Don't pay up. It's the surest way to lose by not winning.

Do your homework. Understanding a business will save you from mistakes.

And to those of you with the patience, and fortitude, to resist the temptations of the moment…. To those of you who don't want to be the mosquitoes that bang into every bulb that's illuminated … you can not only not lose….

You might just win more than you'd ever expect.

Steven Romick

First Pacific Advisors, Managing Partner

Acknowledgment: I would like to thank Ryan Leggio for proposing the idea behind this adapted speech.

## Important Disclosures

The views expressed herein and any forward-looking statements are as of the date of the publication and are those of the portfolio management team. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio managers, or the Distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed.

Investments in mutual funds carry risks and investors may lose principal value. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; these risks may be heightened when investing in emerging markets. Small and mid-cap stocks involve greater risks and may fluctuate in price more than larger company stocks. Short-selling involves increased risks and transaction costs. You risk paying more for a security than you received from its sale.

Interest rate risk is the risk that when interest rates go up, the value of fixed income securities, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principal due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults the security may lose some or all of its value. The return of principal in a bond investment is not guaranteed. Bonds have issuer, interest rate, inflation and credit risks. Lower rated bonds, callable bonds and other types of debt obligations involve greater risks. Mortgage-backed securities and asset-backed securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets. Derivatives may increase volatility.

Value securities, including those selected by the Fund's portfolio managers, are subject to the risk that their intrinsic value may never be realized by the market because the market fails to recognize what the portfolio managers consider to be their true business value or because the portfolio managers have misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

The FPA Funds are distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.

| TICKER | SHARES / PRINCIPAL | SECURITY | COUPON RATE | MATURITY DATE | MKT PRICE ($) | MKT VALUE ($) | % OF NET ASSET VALUE |
|---|---|---|---|---|---|---|---|
| | | **COMMON STOCKS (LONG)** | | | | | |
| AA | 3,866,740 | ALCOA INC. | | | 34.40 | 133,015,856 | 0.8% |
| ALLY | 9,942,850 | ALLY FINANCIAL | | | 20.33 | 202,138,141 | 1.2% |
| GOOG | 220,881 | ALPHABET INC - C | | | 829.56 | 183,234,042 | 1.1% |
| GOOGL | 220,277 | ALPHABET INC - A | | | 847.80 | 186,750,841 | 1.1% |
| AXP | 2,630,010 | AMERICAN EXPRESS COMPANY | | | 79.11 | 208,060,091 | 1.2% |
| AIG | 7,840,680 | AMERICAN INTERNATIONAL GROUP, INC. | | | 62.43 | 489,493,652 | 2.8% |
| ADI | 3,176,140 | ANALOG DEVICES, INC. | | | 81.95 | 260,284,673 | 1.5% |
| AON | 4,004,480 | AON PLC* | | | 118.69 | 475,291,731 | 2.8% |
| ARNC | 15,228,573 | ARCONIC | | | 26.34 | 401,120,613 | 2.3% |
| BIDU | 1,282,010 | BAIDU INC. - ADR* | | | 172.52 | 221,172,365 | 1.3% |
| BAC | 18,801,990 | BANK OF AMERICA CORPORATION | | | 23.59 | 443,538,944 | 2.6% |
| CSCO | 10,237,860 | CISCO SYSTEMS | | | 33.80 | 346,039,668 | 2.0% |
| CIT | 11,049,910 | CIT GROUP | | | 42.93 | 474,372,636 | 2.8% |
| C | 8,308,010 | CITIGROUP | | | 59.82 | 496,985,158 | 2.9% |
| ESL | 2,863,871 | ESTERLINE TECHNOLOGIES CORPORATION | | | 86.05 | 246,436,100 | 1.4% |
| OGZD LI | 12,690,400 | GAZPROM OAO - ADR* | | | 4.47 | 56,726,088 | 0.3% |
| GE | 6,349,230 | GENERAL ELECTRIC CO | | | 29.80 | 189,207,054 | 1.1% |
| GBLB BB | 2,851,023 | GROUPE BRUXELLES LAMBERT S.A.* | | | 90.78 | 258,829,163 | 1.5% |
| JS SP | 2,636,580 | JARDINE STRATEGIC HOLDINGS LIMITED* | | | 42.00 | 110,736,360 | 0.6% |
| LM | 3,669,319 | LEGG MASON, INC. | | | 36.11 | 132,499,109 | 0.8% |
| LNTA LI | 8,153,870 | LENTA LTD 144A* | | | 6.80 | 55,446,316 | 0.3% |
| LUK | 16,096,920 | LEUCADIA NATIONAL CORPORATION | | | 26.00 | 418,519,920 | 2.4% |
| LPLA | 4,165,970 | LPL FINANCIAL HOLDINGS INC. | | | 39.83 | 165,930,585 | 1.0% |
| LKOD LI | 1,455,100 | LUKOIL OAO - ADR* | | | 52.96 | 77,062,096 | 0.4% |
| MGGT LN | 37,696,377 | MEGGITT PLC* | | | 5.58 | 210,314,336 | 1.2% |
| MSFT | 5,905,380 | MICROSOFT | | | 65.86 | 388,928,327 | 2.2% |
| MNOD LI | 4,377,920 | MMC NORILSK NICKEL OJSC - ADR* | | | 15.72 | 68,820,902 | 0.4% |
| NPN SJ | 3,281,487 | NASPERS LIMITED - N SHARES* | | | 172.55 | 566,226,958 | 3.3% |
| | 2,431,709 | NEXEO SOLUTIONS - FOUNDER SHARES | | | 3.77 | 9,170,439 | 0.1% |
| NXEO | 17,691,717 | NEXEO SOLUTIONS - PIPE SHARES | | | 8.86 | 156,748,613 | 0.9% |
| OXY | 620,540 | OCCIDENTAL PETROLEUM | | | 63.36 | 39,317,414 | 0.2% |
| ORCL | 15,945,530 | ORACLE CORPORATION | | | 44.61 | 711,330,093 | 4.1% |
| OI | 8,912,900 | OWENS-ILLINOIS | | | 20.38 | 181,644,902 | 1.1% |
| QCOM | 2,120,810 | QUALCOMM INCORPORATED | | | 57.34 | 121,607,245 | 0.7% |
| ROSN LI | 5,711,200 | ROSNEFT OIL COMPANY - REG S GDR* | | | 5.69 | 32,496,728 | 0.2% |
| | 1,146,250 | SOUND HOLDINGS FP* | | | 19.79 | 22,688,800 | 0.1% |
| SNGSP RM | 39,322,900 | SURGUTNEFTEGAS - PREFERENCE* | | | 0.57 | 22,492,189 | 0.1% |
| TEL | 4,470,390 | TE CONNECTIVTY | | | 74.55 | 333,267,575 | 1.9% |
| TMO | 1,134,900 | THERMO FISHER SCIENTIFIC INC. | | | 153.60 | 174,320,640 | 1.0% |
| UNA NA | 1,756,570 | UNILEVER N.V.* | | | 49.68 | 87,267,920 | 0.5% |
| UTX | 4,704,690 | UNITED TECHNOLOGIES CORPORATION | | | 112.21 | 527,913,265 | 3.1% |
| WPP LN | 10,495,478 | WPP PLC* | | | 21.95 | 230,384,308 | 1.3% |
| YHOO | 4,847,270 | YAHOO | | | 46.41 | 224,961,801 | 1.3% |
| | | OTHER COMMON STOCK (LONG) | | | | 163,655,066 | 1.0% |
| | | **TOTAL COMMON STOCK (LONG)** | | | | **10,506,448,723** | **60.9%** |
| | | **COMMON STOCKS (SHORT)** | | | | | |
| CCP | (15,450) | CARE CAPITAL PROPERTIES | | | 26.87 | (415,142) | 0.0% |
| IWM | (305,290) | ISHARES RUSSELL 2000 | | | 137.48 | (41,971,269) | -0.3% |
| PEI | (600,700) | PENNSYLVANIA REAL ESTATE INVESTMENT TRUST | | | 15.14 | (9,094,598) | -0.1% |
| PBI | (401,000) | PITNEY BOWES INC. | | | 13.11 | (5,257,110) | 0.0% |

| TICKER | SHARES / PRINCIPAL | SECURITY | COUPON RATE | MATURITY DATE | MKT PRICE ($) | MKT VALUE ($) | % OF NET ASSET VALUE |
|---|---|---|---|---|---|---|---|
| 700 HK | (23,897,100) | TENCENT HOLDINGS LIMITED* | | | 28.67 | (685,102,474) | -4.0% |
| VTR | (61,800) | VENTAS | | | 65.04 | (4,019,472) | 0.0% |
| GWW | (96,049) | W.W. GRAINGER, INC. | | | 232.76 | (22,356,365) | -0.1% |
| 4689 JP | (7,538,000) | YAHOO! JAPAN CORPORATION* | | | 4.62 | (34,802,228) | -0.2% |
| | | OTHER COMMON STOCK (SHORT) | | | | (153,823,808) | -0.9% |
| | | **TOTAL COMMON STOCK (SHORT)** | | | | **(956,842,466)** | **-5.6%** |
| | | **LIMITED PARTNERSHIPS** | | | | | |
| | 120,000 | U.S. FARMING REALTY TRUST I, L.P. | | | 107.22 | 12,866,952 | 0.1% |
| | 350,000 | U.S. FARMING REALTY TRUST II, L.P. | | | 116.05 | 40,617,255 | 0.2% |
| | 968 | WL ROSS HOLDING CORPORATION - LLC INTEREST | | | 6,735.46 | 6,519,316 | 0.0% |
| | | **TOTAL LIMITED PARTNERSHIPS** | | | | **60,003,523** | **0.3%** |
| | | **DERIVATIVES/FUTURES** | | | | | |
| | (118,300,000) | EUR CURRENCY 03/23/17 (118.3M EUR @ 1.04789)* | | | | 1,116,312 | 0.0% |
| | 194,350,000 | JPY PUT 03/24/22 95.00 (194.35M JPY @ $0.07525)* | | | 0.09 | 17,343,794 | 0.1% |
| | | **TOTAL DERIVATIVES/FUTURES** | | | | **18,460,106** | **0.1%** |
| | | **TOTAL OTHER SECURITIES** | | | | **78,463,629** | **0.4%** |
| | | **CORPORATE BONDS & NOTES** | | | | | |
| | 8,980,000 | SPRINGLEAF FINANCIAL SERVICES | 6.500 | 9/15/2017 | 101.75 | 9,137,150 | 0.1% |
| | 15,366,000 | SPRINGLEAF FINANCIAL SERVICES | 6.900 | 12/5/2017 | 103.75 | 15,942,225 | 0.1% |
| | 4,893,000 | BOMBARDIER 144A | 4.750 | 4/15/2019 | 101.50 | 4,966,395 | 0.0% |
| | 28,058,000 | BOMBARDIER 144A | 7.750 | 3/15/2020 | 106.75 | 29,951,915 | 0.2% |
| | 13,800,000 | BOMBARDIER 144A | 5.750 | 3/15/2022 | 98.00 | 13,524,000 | 0.1% |
| | 12,670,000 | BOMBARDIER 144A | 6.000 | 10/15/2022 | 98.75 | 12,511,625 | 0.1% |
| | 29,534,000 | BOMBARDIER 144A | 6.125 | 1/15/2023 | 98.00 | 28,943,320 | 0.2% |
| | 82,750,000 | BOMBARDIER 144A | 7.500 | 3/15/2025 | 102.38 | 84,719,450 | 0.5% |
| | 5,800,000 | BOMBARDIER 144A | 7.450 | 5/1/2034 | 96.88 | 5,618,750 | 0.0% |
| | 2,171,000 | CALIFORNIA RESOURCES CORPORATION | 5.000 | 1/15/2020 | 82.50 | 1,791,075 | 0.0% |
| | 8,984,000 | CALIFORNIA RESOURCES CORPORATION | 5.500 | 9/15/2021 | 73.50 | 6,603,240 | 0.0% |
| | 2,171,000 | CALIFORNIA RESOURCES CORPORATION | 5.000 | 1/15/2020 | 69.50 | 1,508,845 | 0.0% |
| | 35,750,000 | CALIFORNIA RESOURCES CORPORATION 144A | 8.000 | 12/15/2022 | 81.25 | 29,046,875 | 0.2% |
| | 5,650,000 | CONSOL ENERGY | 8.250 | 4/1/2020 | 100.50 | 5,678,250 | 0.0% |
| | 196,666,000 | CONSOL ENERGY | 5.875 | 4/15/2022 | 98.75 | 194,207,675 | 1.1% |
| | 77,110,000 | CONSOL ENERGY | 8.000 | 4/1/2023 | 105.13 | 81,065,743 | 0.5% |
| | 8,150,000 | GLENCORE FINANCE CANADA 144A | 4.250 | 10/25/2022 | 103.34 | 8,421,920 | 0.1% |
| | 9,100,000 | GLENCORE FUNDING LLC 144A | 2.875 | 4/16/2020 | 100.05 | 9,104,209 | 0.1% |
| | 4,700,000 | GLENCORE FUNDING LLC 144A | 4.625 | 4/29/2024 | 103.71 | 4,874,337 | 0.0% |
| | 22,938,000 | NAVISTAR INTL CORP CV | 4.500 | 10/15/2018 | 97.88 | 22,450,568 | 0.1% |
| | 34,244,000 | NAVISTAR INTL CORP CV | 4.750 | 4/15/2019 | 96.50 | 33,045,460 | 0.2% |
| | 143,177,000 | NAVISTAR INTL CORP | 8.250 | 11/1/2021 | 99.87 | 142,990,870 | 0.8% |
| | 10,620,434 | RELP-8 | 8.500 | 10/19/2017 | 100.00 | 10,620,434 | 0.1% |
| | 10,320,000 | RELP-9 | 7.500 | 4/29/2017 | 100.00 | 10,320,000 | 0.1% |
| | 3,891,210 | RELP-10 | 9.500 | 11/20/2017 | 100.00 | 3,891,210 | 0.0% |
| | 21,787,159 | RELP-11 | 10.750 | 8/4/2018 | 100.00 | 21,787,159 | 0.1% |
| | 16,731,000 | RICE ENERGY INC. | 6.250 | 5/1/2022 | 102.50 | 17,149,275 | 0.1% |
| | 23,416,667 | SEARS CANADA TERM LOAN | 10.650 | 3/19/2022 | 97.49 | 22,822,820 | 0.1% |
| | 16,705,159 | SHIP LOAN PARTICIPATION II | 11.000 | 9/4/2018 | 100.00 | 16,705,159 | 0.1% |
| | 44,027,120 | SHIP LOAN PARTICIPATION | 7.800 | 12/24/2019 | 100.00 | 44,027,120 | 0.3% |

| TICKER | SHARES / PRINCIPAL | SECURITY | COUPON RATE | MATURITY DATE | MKT PRICE ($) | MKT VALUE ($) | % OF NET ASSET VALUE |
|---|---|---|---|---|---|---|---|
| | 3,800,000 | SOUTHWESTERN ENERGY | 4.100 | 3/15/2022 | 93.38 | 3,548,440 | 0.0% |
| | 28,841,000 | WALTER INVESTMENT MANAGEMENT CORP. CV | 4.500 | 11/1/2019 | 30.50 | 8,796,505 | 0.0% |
| | 53,600,000 | WALTER INVESTMENT MANAGEMENT CORP. | 7.875 | 12/15/2021 | 58.88 | 31,559,680 | 0.2% |
| | 27,914,215 | WALTER INVESTMENT MANAGEMENT CORP. TL | 3.750 | 12/18/2020 | 86.49 | 24,143,842 | 0.1% |
| | | **TOTAL CORPORATE BONDS & NOTES** | | | | **961,475,541** | **5.6%** |
| | | **RMBS NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATION** | | | | | |
| | 1,058,892 | STANWICH MORTGAGE LOAN TRUST SERIES 2009-2 | 5.320 | 2/15/2049 | 44.72 | 473,537 | 0.0% |
| | 1,102,548 | STANWICH MORTGAGE LOAN TRUST SERIES 2010-1 | 0.000 | 9/30/2047 | 50.58 | 557,669 | 0.0% |
| | 7,517,574 | STANWICH MORTGAGE LOAN TRUST SERIES 2010-2 | 0.170 | 2/28/2057 | 50.42 | 3,790,360 | 0.1% |
| | 3,238,757 | STANWICH MORTGAGE LOAN TRUST SERIES 2010-3 | 0.000 | 3/15/2047 | 50.03 | 1,620,350 | 0.0% |
| | 4,115,991 | STANWICH MORTGAGE LOAN TRUST SERIES 2010-4 | 1.720 | 8/31/2049 | 50.50 | 2,078,575 | 0.0% |
| | 8,246,827 | STANWICH MORTGAGE LOAN TRUST SERIES 2011-1 | 0.560 | 6/30/2039 | 52.74 | 4,349,615 | 0.1% |
| | 5,754,418 | STANWICH MORTGAGE LOAN TRUST SERIES 2011-2 | 0.000 | 9/15/2050 | 53.52 | 3,079,788 | 0.0% |
| | 3,982,576 | STANWICH MORTGAGE LOAN TRUST SERIES 2012-2 | 0.000 | 3/15/2047 | 42.50 | 1,692,595 | 0.0% |
| | 8,009,901 | STANWICH MORTGAGE LOAN TRUST SERIES 2012-4 | 0.000 | 6/15/2051 | 46.00 | 3,684,554 | 0.0% |
| | 22,531,345 | SUNSET MORTGAGE LOAN COMPANY 2015 NPL-1 A | 4.460 | 9/18/2045 | 100.83 | 22,718,633 | 0.1% |
| | | **TOTAL RMBS NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATION** | | | | **44,045,676** | **0.3%** |
| | | **TOTAL INVESTMENT SECURITIES** | | | | **10,633,591,103** | **61.6%** |
| | | **U.S GOVERNMENT AND AGENCIES** | | | | | |
| | 275,000,000 | U.S. TREASURY NOTE | 0.875 | 4/15/2017 | 99.99 | 274,968,650 | 1.6% |
| | 210,000,000 | U.S. TREASURY NOTE | 0.875 | 8/15/2017 | 100.01 | 210,018,039 | 1.2% |
| | 200,000,000 | U.S. TREASURY NOTE | 0.625 | 8/31/2017 | 99.89 | 199,785,720 | 1.2% |
| | 270,000,000 | U.S. TREASURY NOTE | 1.000 | 9/15/2017 | 100.05 | 270,143,424 | 1.6% |
| | 274,000,000 | U.S. TREASURY NOTE | 0.625 | 9/30/2017 | 99.85 | 273,589,000 | 1.6% |
| | 280,000,000 | U.S. TREASURY NOTE | 0.875 | 10/15/2017 | 99.96 | 279,881,868 | 1.6% |
| | 291,000,000 | U.S. TREASURY NOTE | 1.875 | 10/31/2017 | 100.52 | 292,500,833 | 1.7% |
| | 290,000,000 | U.S. TREASURY NOTE | 0.875 | 11/15/2017 | 99.95 | 289,851,607 | 1.7% |
| | 75,000,000 | U.S. TREASURY NOTE | 2.250 | 11/30/2017 | 100.81 | 75,606,150 | 0.4% |
| | 200,000,000 | U.S. TREASURY NOTE | 0.625 | 11/30/2017 | 99.77 | 199,538,280 | 1.1% |
| | 250,000,000 | U.S. TREASURY NOTE | 1.000 | 12/15/2017 | 99.99 | 249,980,150 | 1.5% |
| | 259,000,000 | U.S. TREASURY NOTE | 0.875 | 1/15/2018 | 99.87 | 258,668,143 | 1.5% |
| | 275,000,000 | U.S. TREASURY NOTE | 0.750 | 1/31/2018 | 99.76 | 274,339,368 | 1.6% |
| | 260,000,000 | U.S. TREASURY NOTE | 3.500 | 2/15/2018 | 102.09 | 265,440,708 | 1.5% |
| | 230,000,000 | U.S. TREASURY NOTE | 0.750 | 2/28/2018 | 99.71 | 229,337,853 | 1.3% |
| | 325,000,000 | U.S. TREASURY NOTE | 1.000 | 3/15/2018 | 99.93 | 324,757,517 | 1.9% |
| | 325,000,000 | U.S. TREASURY NOTE | 0.750 | 3/31/2018 | 99.66 | 323,904,392 | 1.9% |
| | 300,000,000 | U.S. TREASURY NOTE | 0.625 | 4/30/2018 | 99.48 | 298,428,510 | 1.7% |
| | | **TOTAL U.S GOVERNMENT AND AGENCIES** | | | | **4,590,740,212** | **26.6%** |
| | | **COMMERCIAL PAPER** | | | | | |
| | 50,000,000 | APPLE | 0.730 | 4/12/2017 | | 49,986,600 | 0.3% |
| | 31,000,000 | APPLE | 0.690 | 4/17/2017 | | 30,990,493 | 0.2% |
| | 100,000,000 | APPLE | 0.700 | 4/28/2017 | | 99,947,500 | 0.6% |
| | 200,000,000 | APPLE | 0.720 | 5/10/2017 | | 199,844,000 | 1.2% |
| | 50,000,000 | COCA-COLA | 0.850 | 5/23/2017 | | 49,938,611 | 0.3% |
| | 50,000,000 | COCA-COLA | 0.850 | 5/24/2017 | | 49,937,431 | 0.3% |
| | 25,000,000 | COCA-COLA | 0.850 | 5/25/2017 | | 24,968,125 | 0.1% |
| | 250,000,000 | EXXON MOBIL | 0.750 | 4/27/2017 | | 249,864,583 | 1.4% |

| TICKER | SHARES / PRINCIPAL | SECURITY | COUPON RATE | MATURITY DATE | MKT PRICE ($) | MKT VALUE ($) | % OF NET ASSET VALUE |
|---|---|---|---|---|---|---|---|
| | 96,000,000 | MICROSOFT | 0.810 | 5/11/2017 | | 95,913,600 | 0.5% |
| | 245,000,000 | PROCTER & GAMBLE | 0.770 | 4/13/2017 | | 244,937,117 | 1.4% |
| | 153,685,000 | WAL-MART | 0.780 | 4/5/2017 | | 153,671,681 | 0.9% |
| | | **TOTAL COMMERCIAL PAPER** | | | | **1,249,999,741** | **7.2%** |
| | | **REPURCHASE AGREEMENTS** | | | | | |
| | 76,997,000 | STATE STREET BANK/FICC REPO | 0.009 | 4/3/2017 | | 76,997,000 | 0.5% |
| | | **TOTAL REPURCHASE AGREEMENTS** | | | | **76,997,000** | **0.5%** |
| | | CASH & EQUIVALENTS | | | | 704,187,370 | 4.1% |
| | | **TOTAL CASH & EQUIVALENTS** | | | | **6,621,924,323** | **38.4%** |
| | | **TOTAL NET ASSETS** | | | | **$ 17,255,515,426** | **100%** |

* Indicates foreign security.

Portfolio Holding Submission Disclosure

**You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies, sales charges, and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by email at crm@fpafunds.com, toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.**

Investments in mutual funds carry risks and investors may lose principal value. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Certain funds may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; this may be enhanced when investing in emerging markets. Small and mid cap stocks involve greater risks and they can fluctuate in price more than larger company stocks.

Short-selling involves increased risks and transaction costs. You risk paying more for a security than you received from its sale.

The return of principal in a bond investment is not guaranteed. Bonds have issuer, interest rate, inflation and credit risks. Lower rated bonds, callable bonds and other types of debt obligations involve greater risks. Mortgage securities and asset backed securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; derivatives may increase volatility.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the Portfolio Managers or Distributor.

The FPA Funds are distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.