Brande Winget: Good afternoon, and thank you for joining us today. We'd like to welcome you to the second quarter 2013 conference call for our Small/Midcap Absolute Value Strategy which includes the FPA Capital Fund. My name is Brande Winget and I'm Senior Vice President here at FPA. The audio transcript and visual replay of today's webcast will be made available on our website FPAFunds.com in approximately one week. Since its inception in 1984 when Bob Rodriguez developed the strategy, the primary objective of our Small/Midcap Absolute Value, as we call it, SMAV investment strategy, which includes the FPA Capital Fund is to invest in a limited number of small and medium size public companies and produce superior long term investment returns. We're proud to have been able to achieve this goal and that we've generated index medium returns over multiple investment cycles. We hope to continue to meet our objective. Please feel free to submit questions live during the webcast and the team will address them at the end. It is now my pleasure to introduce Dennis Bryan, Portfolio Manager of the strategy, Arik Ahitov, Managing Director, and Vice President, Nile Garritson. I will now hand it over to you, Dennis.

Dennis Bryan: Thank you, Brande. On today's call Arik will discuss the Capital Fund's performance for the various timeframes, and more importantly, show you the stocks that drove the Fund's performance year to date, as well as the past year. Next, we'll go over the portfolio characteristics, and Arik will go into detail on one of the stocks in the portfolio, and then I'll discuss another large holding in the portfolio. After that I will discuss our market outlook. Finally, we'll open the call to questions to the listeners, after which Brande will make a brief comment with respect to our recent change to the Fund's closing language which we updated last month. Arik?

Arik Ahitov: Good afternoon everybody. Thank you very much for joining us this afternoon. If you just go to slide three, I will go over this slide quickly because I will use the next few slides to go deeper in explaining the components of our performance. On this slide you can see our performance for different time periods including since inception compared to both Russell 2000 and Russell 2500. On this slide we can see the major culprit of the last 12 month's performance. Cash was a major factor to the performance. When the market is trading at rich multiple, we trim our positions and it becomes harder to identify enough companies that fit our buy criteria so we cannot replace what we sell. Today the market is expensive so we have more cash than usual. We are, as you know, absolute value managers so we will stay on the sidelines as long as it takes and has the right cash. We have done just that over the last 29 years for this strategy. On this slide we see how each stock in the portfolio has performed year to date. Perhaps the next slide is actually better because it shows the same information for the last 12 months. As you can see here, 15 of the 27 stocks we have in the portfolio appreciated by more than 20%. This is a busy slide so I'll go over it very slowly. It shows our performance since inception of the fund. We show here three periods leading to February 2000, September 2007 and June 2013. Following both 2000 and 2008 when the valuation in the marketplace seemed excessive, the markets declined by over 40%. In both instances our strategy underperformed prior to that decline, and you can see that in these red numbers that we circled. However, if you just look at the periods that followed that under-performance—and these are the green numbers—you see that following, for example, 2000, the fund outperformed by 17% to 7%. Following 2008 it outperformed 7% to 3%. You can see the cumulative effects of what happened all the way on the right with $10,000 invested in FPA Capital at $523,000, versus Russell 2500, $244,000. That's exactly what should be expected from us if we are value investors. Many value managers have drifted—they are fully invested and riding the market. We are adhering to our strategy—we have a large inventory and we wait for the opportune time. On this slide we can see another way to look at this strategic performance. How have we performed when the market was up, and how have we faired when the market was down? This slide shows that from inception to the end of 2012 we have performed approximately 225 basis points better in up markets, because our performance when the market was down that had a great advantage with almost 800 basis points of outperformance. I will now go to slide 10. Thank you. I will compare our portfolio to Russell 2500, but you can also study the numbers for Russell 2000 on this page. Our portfolio is very defensive and has a great valuation advantage over our benchmark.

Our P/E ratio of 12 is significantly lower than Russell 2500's 24x. Similarly our price to book multiple is 1.5x against Russell 2500's 2.1. I will highlight two more figures, and those are the last two lines. As we can see on this slide, our company has had significant greater return equity while deploying a lot less leverage, which can be seen in our debt to capital at 28% versus Russell 2500's 45%. This slide shows the changes in the portfolio acquired to date, but perhaps the next slide is actually better because it shows the same information year to date. Despite the overall increase in the marketplace we were able to initiate two new positions and add to three existing positions. The two new positions in this year, the first one is Apollo. Apollo is in the for-profit education space. The other one is Centene. It is one of the leaders in pure play Medicaid managed care. We have added to three existing positions. Arris provides communication systems to cable operators, DeVry is another for-profit education company, and Helmerich & Payne is a driller. We have reduced our positions in 12 names as the prices continue to appreciate. On this slide we see a snapshot of the portfolio as of June 30th. As you can see on the right bottom corner, cash makes up about 32% of the portfolio. Technology remains as our largest sector allocation at 25%. I'm going to now go over an example of one of our newer investments. We have three investments in the for-profit education space. Both DeVry and Apollo belong to this space. And investing in this space is a prime example of our contrarian investment style—the education services sector of diverse performing industry groups in the U.S. in 2012. DeVry passes our criteria of investing in market-leading companies with a history of profitability and pristine balance sheets that are run by capable management teams. In for-profit education the main question to answer is a simple one: Will we need education in the future? If yes, who will deliver that education and how will it be delivered? Currently enrollment is down in all U.S. for-profit schools. People simply don't know if they will find a job once they graduate. Many people are worried about prolonged high unemployment rates. We believe that eventually the job market will stabilize. We don't know when. It might take 2 months, 12 months or 60 months, but while waiting for it, DeVry is a good place to wait. DeVry specifically is one of the largest for-profit education institutions in the U.S. Their largest division is called DeVry University. This is their traditional under graduate and graduate programs. You might have seen their campuses driving around town. They mainly educate students in business, accounting and IT. This segment is suffering from the declined enrollment levels we just talked about. However, we felt comfortable with this segment because DeVry University is student centric, and most importantly, graduates get jobs. According to the company, 90% of their graduates that are looking for a position obtained a job in their field of study within six months with over $40,000 starting salary. What some investors don't consider is the steady part of their business that consists of healthcare, Brazil, and test preparation. These business provide a diversity of revenue streams. Their healthcare business consists of medical and nursing schools, all of which are doing well. Their international expansion to Brazil has been a success so far, and their test preparation program, Becker, is the number one such provider in the world when it comes to studying for the CPA exam. We have been expecting continued weakness in U.S. for-profit education, and therefore we have kept our position size small for a long time. However, once the stock price of DeVry first broke 25 and then broke 20, we increased our position greatly. At that time our sum of the part analysis showed that the value of the company's medical assets, Becker Test Preparation program and Brazil operations were greater than the then current enterprise value even if one were to val the DeVry University's assets at zero dollars. Over the past year we visited the company a number of times; we also spoke with different members of the management team various times. Our team has also met with and spoken to many of the company's competitors. We continue to follow this industry, and because of our work at DeVry we were able to initiate a position at Apollo. With that I'll turn the call over to Dennis who will first go over one investment that we have made in the fund and then talk about our views on the market.

Dennis Bryan: Thank you Arik. This is Western Digital. This is a classic value stock that our strategy has invested in. We could change the name to a number of other companies. This company happens to be the leading producer of hard disk drives in the industry. Arik mentioned, and if you go to our website and look at our investment policy statement, there are three or four really critical factors that we look for: “market-leading company”. Again, this company is the largest producer of hard disk drives in the industry. A successful management team. Both John Coyne, the former CEO, and Steve Milligan, the current CEO have a long track record of success of turning around businesses and improving the profitability of those businesses. We talked about also, and you’ll find in our policy statement, the good returns on invested capital. Western Digital has achieved a 19% return on invested capital over the last 10 years. We talked about a pristine balance sheet. Western Digital today has over $2 billion of net cash—roughly $2.3 billion of net cash on the balance sheet. That translates to roughly $10 per share in net cash on the balance sheet. So this is a classic, we call it, because it meets all of the factors that we look for. But the most important factor is it has to be cheap. We’re value managers, and as you can see on this chart, going back to 2007 were we initiated the position, the stock was in the mid-teens—around $17 a share. We took a small position in the stock at that point in time. And if you just X out the cash, don’t even—assume the company had no cash, we were buying it at 8x earnings. And then the stock rose. We didn’t really sell anything because it was still a small position, and then the financial crisis hit and all the stocks in the market crashed. And Western Digital or WDC, as we call it, was really no different—the stock absolutely got crushed going from $40 down to $10 a share. We took a full position in the company at that point in time. At that point in time the stock was turning at 4x earnings, and that's not, again, including the roughly $2 bucks of net cash the company had on the balance sheet at that point in time. So we're really buying at less than 4x. We take a full position, and then of course the market recovers. Western Digital continues to perform well and generate good cash flow. We trim a little bit back in the mid '09 timeframe—kind of in the high 30s. Not a big sale. And then the stock comes under pressure again in 2010, and we add to the position. Again, this is classic of what we do. We buy into weakness and sell into strength. As the stock's coming down we're able to buy it at 5x earnings at that point in time. And then right around that time is when the iPad came out—Apple's first iPad came out, I believe, in April of 2010, so it's been out there for now about three years, and investors started get increasingly concerned about disk drives because at that point in time they were predominantly used in client products like notebooks or desktop computers, and the stocks didn't hit. And we add to the position because we have a fundamentally different viewpoint on what the market was like to be and what the company would generate in terms of free cash flow. So we add to the position, and continue to add to the position again, and this is typical of what we do. Now, at that point in time with the company's trade of 5, 6 times earnings, there's this big skepticism out there. And what investors failed to realize at that point in time was the iPad would actually drive huge demand for a completely different product that the company had, and that is an enterprise disk drive that is being used in what we call "cloud computing". So, Amazon, Microsoft, Google, Facebook—these big cloud providers have huge demand for disk drives. Those drives, by the way, are three times the price of a desktop drive and much higher profit margins. So where investors were expecting a big collapse in profitability, the company's profitability has continued to be robust, and the company has generated tremendous amount of free cash flow. Now, the market is realizing that and the stock's taken off and it's up four-fold from our initial position. And this is classic of what we do. We're contrarian value buyers and investors. We buy when everyone hates a company, and that's when you get your great opportunities in the marketplace, but you've got to do your research. Again, market-leading companies, history of good profitability, successful management team, pristine balance sheets. Those factors allow us to have our success, and then it's just dependent on the company executing at that point in time. So let's now turn over to the market overview. So, switching gears here. We'll talk about our viewpoints on what we see in the marketplace. The first slide here, you could see the stock market capitalization as a percentage GDP getting very close to where it was back in the late 1990s in the dot com blow off stage and prior to the financial crisis in 2007 and 2008, or actually above those levels. And so, again, we just really want to point out that the market looks like it could be reaching levels at which may not be sustainable. Turning to the next slide, if we will. There's been a lot of discussion, frankly, about investors being forced to take on more risk to receive higher yields. And this chart shows that the volume of levered loans has increased substantially from the recession lows of late ’08 and early ’09. We are now approaching the levels achieved just before the financial crisis. You could see in the fourth quarter of 2012 we are nearly at $400 billion, very close to where we were in the first and second quarters of 2007. This slide adds a little bit to that commentary in terms of potentially looking at the riskiest levered loans, covenant light loans which certainly fill the bill there. These loans that were issued in the first quarter of this year nearly matched the entire volume, dollar volume, on 2007. We believe these two charts support the contention that investors are reaching for yield irrespective of the risks that they’re assuming. If we go onto the next slide. Arik showed you earlier the very high P/Es for the small/midcap stocks. I believe it’s 24.1 times for the Russell 2500—over 27x for the Russell 2000. This graph shows that the investors are placing very high P/Es on those profits that are being achieved with near record profit margins. We run a lot of different scenarios out there. So we’d look at normalized earnings. What would normalized earnings be? And of course, nothing’s ever normal, but if you look at the peak and the trough, kind of look at an average. If margins simply went back to what now some are calling "the modern median profit margin", the Russell 2000 would trade at roughly 40x earnings, all of being equal. We're not saying that this is going to happen, but we're just saying if this were to occur the valuations would be excessively high. These two factors have caused—the two biggest factors have caused margins to improve since 2009, by the way, are much lower interest rates and the reduction of labor expenses associated with the big layouts that we saw a few years ago. We believe these two factors have largely played out, and in which is why we're now seeing GAAP, general accepted accounting principle earnings, not grow over the last year. This is an interesting—could be an interesting leading indicator of where employment might be heading. This chart shows that historically employment gains and losses have been closely tracking the profits of a business, or the change in profits of a business. And this completely makes a lot of sense. It's intuitive. In other words, the better a company is doing, the more money they're making, and the more likely they are to hire and grow their business, which means they need labor. Of course, and vice versa—the company is producing lower profits, they're likely to cut back on their expenses. And what we see in this slide is that corporate profits year over year growth have decidedly decelerated, and again, over the last year, really have not grown when you look at earnings and profits using U.S. GAAP. Going to the next slide here, this is fascinating, because we've been reading the bank credit analysts for years, and I've never really seen this slide before or this particular chart that they show. And the BCA, the Bank Credit Analysts, has their own proprietary method for what they call their speculation indicator, if you will. What caught our eye is what is showing today versus where this indicator was showing in the late 1990s and around the period of the financial crisis in 2007. And just like those two periods, the BCA indicator is showing that the U.S. equity market is in the extremely speculative portion of this barometer, if you will. And it kind of collaborates what we're seeing from our fundamental viewpoint in terms of valuation and profit margins and the other items that we talked about. And then looking down below you could see this chart shows margin debt is nearly back to the level prior to the financial crisis. In other words, individuals are levering themselves up to buy stocks. Okay, on this particular chart what we're really trying to depict here is, and really, I think, support is our contention that the economy is weak, and we're seeing that in the GDP numbers. And this particular chart just shows new orders have been weak and fluctuating right around the level that would continue to product below average economic growth. One month it might show a little strength and next month it's showing weakness, and there's really no direction here. And that's pretty much where the economy is going. Certainly not robust, with growing less than 2% over the last year. There are some strengths in the economy and housing starts have definitely been one area of strength. Housing starts have clearly rebounded off the depressed levels that we saw in the last recession. Our concern is that we could be seeing some early signs that housing starts may be stalling out. And of course, the construction industry produces a lot of jobs, so we need starts to continue to move upwards to support the employment picture. So we'll watch this very closely. On this particular graph, you know, I think most of us are aware that the dollar has lost a large percentage of its market share in terms of global foreign exchange reserves, and predominately that's due to the Euro coming into existence in 2001. So you can see where here the dollar was roughly 72, 73 percent of foreign exchange reserves; the Euro comes out and takes a big percentage of that market share that the U.S. has lost. But even after—even since kind of the 2008/2009 timeframe, you know, the dollar has continue to lose some additional share. And the question that we have is, you know, is this healthy for the U.S. economy? With the Fed buying much of the treasure debt to support our budget deficits in Washington, what happens if rates were to rise in order for global investors to replace the eventual tapering off of Fed purchases? And if rates were to rise, what does that mean for U.S. equities. We have our own opinion, and that opinion is, if rates were to rise, all else being equal, P/Es should shrink. Historically that's been the case. Now we're going to switch gears. And that's kind of our macro thoughts in how we're thinking about the market environment. So let's talk about a potential investment opportunity. As many know today, our domestic natural gas prices are very low compared to what Europe and Asia have to pay. We're paying today, as you can see on this chart, U.S. is at $3.32. In fact, when I last checked earlier this morning that's exactly where the price of Nat Gas was today--$3.32. And you can see Japan paying $16 and parts of Europe paying $10, $11, $12. So there's a large arbitrage opportunity for U.S. producers of natural gas to sell that natural gas to Japan or other countries. Unfortunately, natural gas is not an easily transported commodity and generally must be liquefied to transport overseas, and there's a lot of capital that would be required for that. And should that happen, we merely wanted to point that Capital Fund currently has roughly 12% of the portfolio that is allocated to energy companies that are exposed to that potential option, and we think that's a very cheap call option today because the companies in which I referred to are supported by the domestic oil industry, and particularly where oil is today at $105 a barrel. So, we have this free call option, if you will on Nat Gas. Turning to the last slide before I open it up to Q&A. People are puzzled with this slow economy, very anemic growth this year. Oil prices have rebounded. And in this particular slide, if you focus on the red line, that's the U.S. crude oil days of supply. And you could see, in terms of days of supply, days of supply actually decrease more than 10%. And as the market tightened, supply demands tightens, the prices will rise, generally. And this is probably the best reason to support the higher oil prices. Some also would contend that there's the Middle East conflicts that are going on also are associated with higher oil prices. But this, in terms of WTI—because there's also BRIC that people will look at—WTI, we think that the lower supply is probably causing prices to rebound here. With that I'm going to turn it over to questions and answers session and Brande.

Brande Winget: Thanks Dennis. So there's a few questions that have come in, and the first is, Has FPA given any consideration to start a global fund that's encompassing each of the several mutual funds currently available that we'll be encompassing in this way?

Dennis Bryan: No, we have not—we recently started an International Value Fund run by our colleague Pierre Py who's doing an outstanding job, but no, we have not given consideration to a global fund. That would take—I would assume—all the strength of our different mutual funds and different strategies and try to combine them into a global fund. We'll allow Pierre Py and the associates that work with him to really head that area up for our company.

Brande Winget: And secondly, what conditions would have to occur for management to consider reopening the fund?

Dennis Bryan: Okay. So Brande, you'll actually come down later and inform the listeners about a slight modification to our language change that we had with respect to our closing that occurred back in 2004. But in terms of a broad opening, to everybody out there, we've said, really, there are two things that we would look to that would drive that decision. And number one would be, it'd have to be a target-rich environment. We would need a number of opportunities to support that. Today, we're seeing among the fewest opportunities out there. We just had a Board of Director's meeting yesterday and I explained to the members of the board that on a recent screen that I've been running—a quantitative screen that I've been running for over 20 years—50 showed up. I think the lowest point I ever saw was 38. That was back in 2008. So it's not a target-rich environment. The other aspect would be cash. Cash is roughly around 30% today for the mutual fund. We believe that would need to get down below 20% to justify opening that up to everybody.

Brande Winget: Okay, thanks. So the next, What has been the historical rate of return of the Russell 2000 when the number of equities passing your screens have been so low?

Arik Ahitov: This is similar to what we talked about before on Slide 7. I have the numbers here for Russell 2500, but the performance of Russell 2000 was very similar. Like Dennis mentioned, we have a core screen here that we have been running for over 20 years, and the number of companies that screen catches is very low today. When that number is low, all we can do is to continue to learn about different industries and companies and wait for a better time. As you know, we focus on long term absolute performance rather than short term relative performance. And we invest in market-leading companies that are profitable, have a strong balance sheet and run by good management teams. Whilst we put these companies through a rigorous research process, we simply just wait for them to get cheap. Today we have dozens of companies in our pipeline that are thoroughly researched with complete write-ups, but the market overall is trading at very high multiples, so we continue to learn about these companies and add new one to the pipeline. When the price is not right we do not feel the need to commit capital in neither marginal companies nor expensive companies. That said, I do not want you to think that we need the market to go down by 20% for us to invest. We have added ten new names to the portfolio since 2011, and including two this year as the market continues to appreciate, and we have also added to some of our existing names in the same time period.

Brande Winget: Okay, thanks Arik. We have another question about the large cash position. You can understand the large cash position adds some good buying opportunities, but why hasn't this cash position mitigated losses in the NAV on the downside?

Dennis Bryan: Well, today would be a good example. The market is down and we're down less than the market. So, the cash has actually supported the downside. Of course, today is not representative of any particular year or period. But generally speaking, when the markets have been weak we have not gone down as much. And that's not any different than in other periods, like in the 2008/2009 period time we went down less than the market, and then use that available capital to aggressively purchase new securities. Today we're not seeing the valuations being attractive enough really for us to allocate that capital. Arik would probably have something to add.

Arik Ahitov: Yeah, I'll add to that—to Dennis' point. In 2008, despite our large cash position, the portfolio still lost a value, but as you know, our companies have pristine balance sheets. So the good thing is, we did not take any permanent hits to the capital in 2009 when we allocated this capital to new names and to existing names.

Brande Winget: Okay, thanks Arik. A couple more questions about just the overall target list. How many companies would you say currently are on your target list?

Dennis Bryan: Today we probably have 30 companies that are thoroughly researched and ready to go. You know, a large number of those we've been able to invest in the past, and a good portion of those are also names that we've researched over the last three or four years. They meet all the criteria that we look to that the valuations aren't cheap enough in. And we would not expect all 30 of them to come into our range at the same time. It would take a market meltdown, a parallel shift down in the market, if you will, to have that occur.

Arik Ahitov: I'll add something very quickly to this. Usually we have about 30 names in the portfolio, and our average holding period is six years. We like to look at things in normalized levels, so if everything was normal, every year we sell five companies, we buy five companies. To Dennis' point, we don't need dozens of companies to really come to our range, we just need a handful of them to have hiccups. And basically we want short term problems with companies that short term oriented investors worry about, and because we have a long term horizon, we take advantage of that.

Brande Winget: Okay, thanks Arik. One question came in relating to the International call and Pierre's description where he talks about his rough portfolio discount to intrinsic value relative to the normalized EBITDA. Would you ever do the same, and curious how fully valued the portfolio is in this frothy environment?

Arik Ahitov: We don't talk at that number for the overall portfolio, but each portfolio company, the way we calculate our valuation is, we look at normalized earnings and we define that as EBITA minus CapEx tax affected. And we look at it through the cycle, not peak numbers, not trough numbers, and then we find out what our upside/downside potential is in each investment. We have not brought that calculation up to the portfolio level.

Brande Winget: Okay. And then just a few questions on the macro side of things. What single event will cause the Fed to stop buying Treasuries, or is there a single event?

Dennis Bryan: Well, I'm not in the meetings with the Feds—governors. But obviously they talked about employment. But employment is a function of the growth in the economy. So in our eyes, the way we think about it, if the economy really accelerates—the growth in the economy accelerates and companies are producing higher profits, then the pressure, if you will, on the Fed would be lower and less. If we really want to look at, the Fed is essentially monetizing nearly 100% of the budget deficit today. And if the economy is stronger we're going to be producing more tax revenues which would likely drive the deficit lower. And so I would look to really GDP growth which then drives a lot of those other factors.

Brande Winget: Okay, thanks Dennis. Just kind of along those lines, Do you see the Fund preparing for potential inflation or deflation?

Dennis Bryan: That's a great question and the one that is widely discussed here. And I think inflation and deflation are some of the most misunderstood terms of our business. Inflation to our eyes is a monetary event, and how does that money get transported into the real economy? And typically people look at CPI or PPI as inflation. But there are other things that people can purchase with those dollars, and a lot of those dollars have leaked into financial assets, into the bond market, where you're seeing record prices on bonds and record low yields on bonds. And we don't think those yields are sustainable, so I would say that's inflationary. And the stock market trading—at least in our fishing pond, if you will, of small midcap stocks trading at 27x for the Russell 2000 with nearly peak profit margins, one could say that's inflationary but not measured in the traditional sense of how you measure inflation. As for deflation, I actually think—this is my opinion—I actually think there's huge deflationary forces at work in our global economy, and that's what the Fed and the other central bankers are actually trying to fight. If you look at with the internet, the internet is a major discovery. A lot of people discover price instantaneously. It's a very efficient tool. The debt buildup that we have in this country and in other countries around the world, when that debt has to be restructured, that's a deflationary event. And so you have these two forces, if you will, of fighting each other. And to be quite clear, we don't know which side will win out. So what we do, as investors, we look for… What we know is, companies in which we have made a lot of money in over the last 20-30 years, and those are the market-leading companies with a history of good profitability, successful management team. Arik talked about pristine balance sheets. And then we normalize for sales and normalize for profitability, and when they get cheap we'll buy those, irrespective of what people think about inflation or deflation. And so, that's our mindset, okay? But we think about these two major forces at work today and how they can impact profitability.

Brande Winget: So, along those lines, you're seeming cautious about the stock prices and P/E ratios. Would you say then that you're bearish or do you plan to take more money and trim your top positions?

Arik Ahitov: We don't make a macro call looking at the market and say we're going to keep X percent of the portfolio in cash. Cash is simply the residue of investment ideas. We go where the opportunities are, for example, let's think about technology. In 2000 it represented about

30% of the portfolio and then continues to decline to 10% of the portfolio, and today it's back up again. We increase and decrease our weighting in different industries based on opportunities, not based on benchmark rates or what we think about the economy. And usually our bets get concentrated where the opportunities are. And cash levels are high today. They were high in 2006, 2007 as a number of our companies were bought out, and we continuously trimmed our positions as the markets went from one record to the next, and today we are in a similar situation. So if we can find good companies at attractive valuations, and we found two already this year, we'll invest the money. If we don't then we'll hold our cash.

Dennis Bryan: That's a very good point, because we really don't have a bearish or bullish viewpoint on the market. All we do is we look at the facts, and the facts are that profit margins are near historical highs and multiples are very rich. Irrespective of all of that, we were able to allocate capital to Centene, which is market-leading company and it's a Medicaid management services company. We know that industry very well. We were able to buy Amerigroup back in 2011 at around $40 a share, and WellPoint took us out less than a year later at 92. Earlier this year we also were able to buy Apollo Group. We already talked about DeVry. Apollo Group is generating a tremendous amount of free cash flow very cheap. We understand the enrollment headwinds out there. That's why it's not a big position for us, but it got cheap enough for us to start to allocate some of the shareholder's capital. And so we don't have this viewpoint of whether the markets were bearish or bullish. We look at individual companies and build the portfolio up a stock at a time, taking into consideration, a lot of factors, though. There are a lot of different factors that go into that analysis.

Brande Winget: Thanks Dennis. Understanding what you guys just commented on, do you think, though, that there's any real strength besides the housing starts or due to possibly autos or natural gas prices that's contributing to the growth of the economy?

Dennis Bryan: Okay, here's how I would answer that. I think what we're seeing is a cyclical rebound. Autos—your auto eventually wears out. You know, if you have a 10-year old, 12-year old auto and it has 200,000 miles on it and you've got to drive 70 miles to work—we live in Los Angeles so that's not unheard of out here—you need to replace your wheels. Young couples are forming families, and when their confidence improves a little bit, they're going to want to buy a home and start a family and raise children. So there's some pent up demand, if you will, in these two big sectors of our economy. Clearly, there are other factors that are driving the economy. We think technology, what's going on with the internet and social media and the tools that are allowing companies and individuals to be a heck of a lot more productive. Cloud-based computing is great. It's really wonderful stuff. Medical technology—giving people the prospect of living a more healthy life. These are all great things, and they're helping to contribute to the growth of our economy. Productivity and efficiency is what drives the long term growth rate of our economy besides population growth. And so there's a lot of good things going on. Unfortunately we believe there's some policies that are retarding the natural growth potential of our economy.

Arik Ahitov: If I may, I'll add one more item that adds to growth. Perhaps not really at a federal level, but at municipal level, there is some government spending. For example, one of our investment, Oshkosh, has benefitted greatly from infrastructure updates and highway updates, and those are not only providing some jobs, but also helping in capital expenditures.

Brande Winget: Okay, thanks Arik. Now a couple of questions on natural gas. So what long term natural gas price are you using when valuing your exploration and production equities?

Dennis Bryan: Okay, so for natural gas, when we look at E&P companies we are tilted more towards liquids, and we get, what we call the dry gas—we want to have that thrown in for free. And our expectation is natural gas prices will fluctuate between $3 and $5 per MCF over the next three to five years. And if LNG really takes off then we're likely to see prices above $5 per MCF. And that's that free call option, if you will, that is embedded in some of these securities that we have an investment in.

Brande Winget: We have a question about the top two companies that have that embedded call option. Do you want to comment?

Dennis Bryan: Yeah. So the first two companies that would come to my mind, number one, we would have Newfield NFX. Get some nice gas assets. The other would be SM Energy. Very attractive gas assets down in Eagle Ford Shale down in Southwest Texas. However, we also have a couple land-based drillers that would do really well. Helmerich & Payne, which is a great company. Hans Helmerich was just in here not too long ago. We really respect the management of that team. They would be very well positioned and so would Patterson, PTEN as we call it here, would also benefit. We have others in the portfolio, but those three or four would do very well.

Brande Winget: Okay. It looks like we can wrap up the call. We're almost at the top of the hour now. So, thanks you Dennis, thank you Arik, thank you Nile. And thank you, our audience, for your participation in our second quarter webcast. We want to take a moment, as Dennis mentioned, to highlight the postscript that is in the second quarter commentary for the strategy. And that is, effective July 29th, we changed the closing language on the Capital Fund as we had many advisors ask us if they could allocate more to their client base rather than only their legacy clients. So if you refer to our prospectus, we have updated it such that an advisor can now allocate to the Capital Fund, if warranted, across their entire client base, not just the legacy

Q = Question
A = Answer

clients as it was structured before. And should you have any further questions on this or for more detail you can contact our Client Service department at (310) 996-5485. And we invite you and your colleagues and shareholders, as well as clients, to listen and view the playback as well as the slides of this recording that will hopefully be up in approximately one week on our website: fpafunds.com. The Capital Fund is currently doing webcasts every six months, so I'd expect the next 2013 webcast to take place sometime in late January of 2014. We hope that our quarterly commentaries, these webcasts and our special commentaries will continue to keep you appropriately informed on the strategy. We do want to make sure that you understand that the views expressed on this call are as of today, August 6th, 2013, and are subject to change based on market and other conditions. These views may differ from other portfolio managers and analysts of the firm as a whole and are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any mention of individual securities or sectors should not be construed as a recommendation to purchase or sell such securities, and any information provided is not a sufficient basis upon which to make an investment decision. The information provided does not constitute or should not be construed as an offer of solicitation with respect to any such securities, products, or services discussed. Past performance is not a guarantee of future results, and it should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the security examples discussed. Any statistics have been obtained from sources believed to be reliable, but the accuracy and completeness cannot be guaranteed. You may request a prospectus from the Fund's distributor, UMB Distribution Services, LLC, or from our website fpafunds.com. Please, read the prospectus carefully before investing. FPA Capital Inc. is offered through UMB Distributors, LLC. This concludes today's webcast. We thank you for your participation, and enjoy the rest of your day.

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