investors first

Q3 2015 FPA International Value Fund (FPIVX) Conference Call

Ryan: Good afternoon and thank you for joining us today. We would like to welcome you to the Third Quarter 2015 webcast for the FPA International Value Strategy including the FPA International Value Fund. My name is Ryan Leggio, and I'm Product Specialist and 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 just a moment you will hear from Pierre Py, the Portfolio Manager of the Strategy, as well as Jason Dempsey a Senior Vice President and Analyst on the Strategy.

Initially, we would like highlight the key Fund attributes for those of you who may be listening in for the first time. I will quickly mention a few of these. First the Strategy is run with an absolute value philosophy. The team's starting position is cash, and they seek genuine bargains in the equity markets rather than relatively attractive ones. Second, the Fund has a broad, benchmark-agnostic mandate. The team can invest in both developed and emerging markets, and can own stocks across market caps and sectors. Finally, the Fund is relatively concentrated, as the team focuses on only high quality companies that trade at an estimated discount to the team's estimate of intrinsic value.

For more detailed information regarding the Strategy, we encourage you to read the Strategy's policy statement available at fpafunds.com.

At this time, it is now my pleasure to introduce Pierre. Over to you, Pierre.

Pierre: Thank you, Ryan, for this introduction, and thank you all for taking the time to be on the call today. Also please accept my apologies for the sound of my voice or blowing my nose in the middle of the call, which I'm sure combined with the French accent should make for a rather interesting experience. Seems the kind weather of California doesn't suffice to getting sick when living with three young children. So if my voice fails me entirely at some point in the coming hour, I'll pass it over to Jason to complete this presentation. (2:02) But hopefully we can go through the whole thing without incident.

So starting with performance, during the third quarter of 2015, the Fund returned a negative 10.2% in U.S. currency compared to a 12.2% decline in the MSCI All Country World Index. That's ex-U.S. and on a net basis. Since the beginning of the year, the Fund declined 4.2%—also in U.S. currency—versus an 8.6% loss for the Index. Most importantly since inception on December 1st, 2011, the Fund has appreciated by an annualized 6.8% versus 3.9% for the Index.

Along with these numbers, we would highlight that, as the market finally started to present us with more opportunities in the later part of the quarter, we added some new positions and put substantial amounts of capital to work, which has caused our cash exposure to come down. Cash was… or had increased rather from close to 40% at the end of the second quarter to… decreased, sorry, from close to 40% at the end of the second quarter to about 30% at September 30, 2015. And we've actually started to see levels we hadn't had in a long time on the cash exposure side. For reference, since inception of the Strategy, the Fund's cash exposure has fluctuated along with the investment opportunity set from the low teens in the first quarter of 2012 to an excess of 40% towards the end of the second quarter of 2014. And it has averaged slightly less than 35% over the period.

(4:02) As we mentioned several times in the past, our take on these quarterly number is simply that short-term volatility is always possible and not very meaningful whether our Fund happens to over-perform relative to a specific index on that basis or not. It doesn't say anything as to the intrinsic values of the businesses that we own, and it means we may have the opportunity to make additional investments. So we do not read too much into periods of negative volatility, but we certain welcome them.

In the last few weeks of the quarter, we were to this point presented with multiple opportunities to invest in high quality, well run, financially strong companies, most of which we had followed for many years. And we took advantage of several of these opportunities to add new names to the portfolio and put more capital to work. As you will see in our quarterly commentary soon to be posted on our website, what also gave us some cause for encouragement as bottom-up investors during these few weeks is that there are signs that fundamentals may be starting to put some expectations in the market to the test.

We have for many years now been operating in a world of ultra-low interest rates and government’s appetite as well as their creativity for providing ever-ending sources of cheap, if not free, capital seems to have no limit. The only remaining reason why equity prices would fall it seems at this stage are the risks associated with businesses’ ability to drive profitable growth, generate free cash flows, and generate good returns which are in line with what is embedded in market valuations. We often hear that monetary policy is what dictates the future of market prices, but for us whether or not businesses can ultimately deliver the expected cash flows embedded in market valuations is far more important. (6:05) Multiples have extended as a function of low interest rates in recent years, but forecasts of continued profit growth also appear to have moved ahead of what businesses can sustainably deliver.

What we're observing from a business performance and operating performance standpoint is that many companies are experiencing increased weakness in emerging markets—China and Brazil in particular. Not only is this limiting organic growth aside from currency headwinds, but it is also challenging cost structures as firms had invested in these regions and as a function of business development at a corporate level as well, hoping to garner the fruits of their investments through continued growth and the associated leverage. Furthermore dampened emerging market prospects appear to heightening competition in other parts of the world and could have trickle-down effects.

This situation is now challenging profit expectations thus also putting pressure on management teams to find offsets, which can translate into poor capital allocation decisions with high multiples being paid for often large strategic "acquisitions" and/or share repurchases. Such investments are likely to eventually further hurt returns and quite possibly net cash flows.

With that, we would again remind shareholders that we should think about potential opportunities in the face of short-term volatility and always look over a multiyear period to measure the success of the Strategy in creating value for shareholders in the long run.

We should end these comment on a note of caution though. As I just pointed out, governments around the world are aggressively pursuing initiatives which artificially inflate asset values, and overall the current environment remains quite challenging for value investors.

(8:06) Looking at where the Strategy stands today now, we find that the portfolio metrics at the end of the quarter are generally consistent with some of the developments highlighted in our performance discussion. First in terms of valuation, even though we do not think price to earning ratios are very meaningful metrics, we note that that portfolio traded at a price to earning ratio of 13.1 at the end of September, down from 14.9 at the end of the previous period, which is a function of the declining share price of some of our existing portfolio companies, as well and more importantly the addition of new heavily discounted ones.

This is only slightly lower than the 13.8 time price to earning ratio that the Index traded at at the end of the quarter. As we always do on these calls, though, we would not that the Index includes businesses that typically trade at lower multiples and to which the Fund continues to have little exposure, such as financials. On an equal footing, we believe our companies are trading at an even lower weighted average multiple and more meaningfully cheaper than the market.

To use a metric that better reflects how we think about the attractiveness of our portfolio, we estimate that our holdings traded at a weighted average discount to their intrinsic values of about 37%, meaningfully higher than the 30% we reported last quarter and above many of the discounts that we have reported in the past.

Most importantly we think our businesses generally have greater staying power, stronger earning generation power per dollar invested, and superior management teams relative to the market. Our portfolio holdings currently generate a weighted average return on equity slightly ahead of the Index of 14.9%, (10:02) and yet many of the holdings are businesses which are either going through a severe cyclical downturn in activity or undergoing significant business changes an improvement, off of which typically putting temporary pressure on earnings. These strong returns are also a testament to the quality of the management teams running these businesses and their continued commitment to sound capital allocation decisions.

Lastly our businesses are able to generate these returns without much financial leverage and thus without taking on the associated risks.

The portfolio's weighted average debt to equity ratio stood unchanged at 0.5 times this quarter versus 0.6 time for the Index, which was also unchanged since last quarter.

As I mentioned many times in the past, we're not strong supporters of these selected portfolio metrics, but they do continue to be generally consistent with our focus on high quality, well run, financially robust companies, which we buy and own with high margins of safety.

Our worst performing holding this quarter was Hypermarcas. Based in Brazil, Hypermarcas is the second largest consumer goods company in the country and the third largest pharmaceutical company. We originally invested in the company during the third quarter of 2014 but had to substantially reduce our holdings as the share price ran up to the end of the second quarter of 2015. Since then, the business has suffered from continued weakness in the domestic economy, including on the pharma side. Free cash flow generation has lagged and, with added negative impact from currency, the balance sheet has not improved as expected. More importantly the group departed from its stated strategy by chasing volumes at the expense of margins (12:03) rather than increasing focus on (co-activities?), extracting efficiency gains, and generating free cash flow in order to reduce financial leverage.

Hypermarcas now portrays this departure as a mis-reaction to the economic downturn and vows to reverse course. While we bought back some of the shares that we had previous sold, we have yet to fully re-weight the position according to the widened discount to intrinsic value, and we placed the company under review. We need to trust, based on further conversations with management, that the old discipline will prevail, otherwise we will have to reconsider our investment.

Our best performing holding in the quarter was a recent addition to the portfolio, which we had preferred to keep confidential while building the position. Unfortunately others took interest in the company, thus limiting our ability to give it a more meaningful weight. We're hoping it could come back and thus are leaving it undisclosed for now.

Our second best performing holding was Adidas. Based in Germany, Adidas is one of the world's leading producers of sport shoes, apparel, and equipment. We invested the company in the third quarter of 2014, as the group was experiencing one of the worst performing years in its history, with a perfect storm of accelerated decline in the golf category; increased competition in the U.S.; instability in Russia, which is an important market for Adidas; and a broad reorganization involving several key executive replacements.

Longer term we expected the transformation to drive better performance and the brand to benefit from the continued global strength in demand for sport and sport-inspired products, (14:02) as well as improving business conditions in Europe. While we have meaningfully reduced our investment in the company in light of the strong share price performance in the past year, we continue to view Adidas as a high quality company, and we remain interested in being invested in the business so long as the share price offers an appropriate margin of safety.

We were relatively active in the last few weeks of the quarter, as I mentioned above, as several of the businesses we had been following saw their share prices cross our discount thresholds. In total, we placed a green light on five new ideas and were able to build meaningful stakes in four new companies. Combined these four new positions accounted for close to 8% of our assets and about 20% of the cash we held at the end of the second quarter. By all measures, this was a period of significant capital deployment for us, in particular in light of the very short window of opportunity.

There were ultimately four new additions to the portfolio in the period, as I mentioned, and they include Totvs, ShawCor, and Ansell from the most to least recent. Based in Brazil, Totvs is a leading provider of enterprise software solutions, primarily to local small- and medium-size businesses. Based in Canada, ShawCor is the world's leading player in the field of coating and weld solutions for pipes and pipelines, primarily directed towards oil and gas applications. Based in Australia, Ansell is a leading global manufacturer of gloves and other body protection solutions, as well as condoms and sexual wellness products. While Totvs and Ansell are both companies we have a long history with, ShawCor is a new addition to our so-called best-of-breed list (16:05) in part as a function of their recent acquisition of the other dominant player historically, Socotherm.

We can only speculate as to why these companies have experienced significant decline in market values, but we can also see that Totvs is a Brazilian domestic business and, as we know, this is a part of the world that is currently undergoing some significant weakness in business activity. The company has also been slowly implementing a change in business model that may be misunderstood by the market and recently announced a relatively sizeable acquisition that, although it offers some interesting prospects, will be challenging to integrate.

ShawCor is an oil and gas-related business, a sector that has experienced and continue to experience significant dislocation. As often this may be causing the market to overlook the strong fundamentals of ShawCor's specific business model and the opportunities created by the company's merger with Socotherm.

Aside from currency and raw material fluctuations, Ansell is an industrial-based business on one end, not immune from the commodity cycle with emerging market exposure, and having engaged in material M&A activity in the last couple of years. Management is being held to these acquisitions and need to deliver improved performance going forward. The group is also a consumer goods company faced with many of the same challenges fast-moving consumer goods companies are currently dealing with.

Our fourth investment, which isn't disclosed, is simply we think the function of a misunderstanding by the market of the true nature of the company's business model. What makes that model unique in a overcrowded market and a mis-assessment by the capital markets of the company's huge potential for profit growth through continued increasing adoption of their solutions irrespective of what the broader economic environment might be. It is an interesting case of where we are able to find opportunities as long-term value investors focused on quality.

I wrote in more details about this in the quarterly commentary, but where as in the past couple of years we have found ourselves more limited to businesses that are faced with short-term challenges as a function of the market rally, we're not devalue investors or purely price-driven value investors in that we can also identify situations where the discount is a function of massive profitable growth that is misunderstood by the market rather than some form of normalization or multiple arbitrage. In all situations however—and that is the common denominator—we remain focused on the strength of fundamentals, the quality of the managers in charge, and the free cash flows that the businesses should be able to generate over the long run.

On the disposal side of things, we sold out of investments in Accenture, Christian Dior, and GUD Holdings. Having performed well since the original purchases, all three of these holdings were no longer offering adequate margins of safety relative to our estimates of intrinsic values. Throughout the quarter we also continuously rebalanced existing holdings based on relative discounts to intrinsic value of course.

Net of all these transactions, our portfolio remained relatively concentrated, as at the end of the period we held 30 investments with the top ten accounting for more than 40% of the Fund's assets (20:03) and the top five including ALS, Fenner, KSB, and LSL for around 25%. Overall the general profile of the portfolio remained relatively unchanged with a reasonable balance in terms of market capitalizations even though we find that smaller overlooked companies tend to be the ones still offering potentially compelling discounts in the current environment, specifically for sustained period of time, as it is reflected in the lower market cap median of the portfolio. Although the weighted average figure hasn't materially changed.

In any case, we do not consider this to be very meaningful since our approach is agnostic to size, as it is to geographies or sectors. We look at anything anywhere with a free float north of $100 million, which often translates into a market cap north of $200–300 million. The range is typically very broad as a result, with our current holdings going from around $500 million in market capitalization to well in excess of $100 billion.

The main geographic features of the portfolio were also broadly similar to what they were at the end of the second quarter, with dominant exposure to companies based out of Europe and no exposure to Japan. The two areas of increased exposure were emerging markets where we have seen some dramatic price dislocations; in North America primarily as a function of our investment in ShawCor, which based in Canada, although it operates globally. This is quite typical of our holdings actually, which is why we find that where companies are domiciled is of limited relevance. Many of them are sizable enough to operate globally and often generate a significant portion of their free cash flows outside of their home country. Close to 60% of the portfolio's free cash flows in fact are generated outside of Europe. (22:03) What matters to us is where business value is created, along with the risk associated with this value creation, more so than domicile.

From a sector standpoint, the portfolio remained geared towards robust industrials, which also include some of our more recently added exposure to commodity-related and cyclical businesses. We still have no investment in banks with financials exposure only reflecting our holdings of LSL and Countrywide, which is somewhat misleading. The new weight towards healthcare is also somewhat misleading, as Ansell is primarily an industrial and consumer goods-driven business. Similarly ShawCor is more of a provider of industrial solutions rather than an energy company. However this investment reflects our continued efforts to take advantage of the massive downturn many such businesses are experiencing and the subsequent severe correction in their share prices.

Beyond that, the Fund is still fairly diversified while geared towards businesses that are cash-generative and not very capital-intensive. These primarily include service-type businesses and consumer goods companies. We also continue to have meaningful investments in ERP software providers, which now include Totvs and have added to our overall information technology exposure with the one undisclosed new holding.

I would reiterate on that front that our technology exposure is not at all a call on any specific technological developments or market cycle, but rather simple reflects the strong fundamentals of the underlying businesses we invest in. In general we actually find that these technology-driven company or more technology-driven companies are difficult to value, as we typically struggle to assess the long-term sustainability of their business models.

(24:02) With that, I would like to pass it over to Jason for our quarterly case study, which interestingly enough is ShawCor.

Jason: Thank you very much, Pierre. Our case study for this quarter is ShawCor. Domiciled in Canada, ShawCor is the global number one player in pipeline coating and pipeline weld protection. In 2014 it generated C$1.9 billion in revenues and $$280 million in operating profit. The operating margin was

15%, and the return on capital employed was also 15%. Its average net debt to EBITDA ratio was under one times. Just under half of its revenue came from Canada and the U.S., with another quarter from the Europe, Middle East, and Africa region, plus 10% from Latin America, and a final 19% from the Asia-Pacific region.

ShawCor's specialty is in material science and process engineering know-how, and it applies this expertise to the protection of steel pipelines that are used to transport oil and gas either through large-diameter transmission or oil field gathering lines. To maximize the useful life of a pipeline and minimize the damage that can be caused by corrosion, coatings are used both inside and outside of the pipes to improve performance. Additional coatings are added for insulation in the case of heated liquids and subzero temperature conditions or to improve buoyancy with the weight of concrete layers when pipelines are on the bottom of the ocean.

ShawCor specializes in the offshore pipeline coating market where it has roughly 50% share of the US$1.5 global market. In the 3.5 billion onshore market, it has strong positions, notably in Canada and Latin America. They're also the only pipeline coater that has a leading pipeline weld protection business (26:03) working in the field to protect pipes when they are being welded together.

For many years ShawCor led the industry with its Bredero Shaw franchise, having a share of the market several times greater than that of its nearest competitors. Then in the aftermath of the global financial crisis, Bredero Shaw's next largest competitor went bust under a debt-ridden balance sheet, and ShawCor was able to acquire this company's assets. The integration of the two businesses improved ShawCor's position, most notably in Latin America, the Gulf of Mexico, and Southern Europe. They have now remarkably strong position and are better able to adjust supply according to the change in demand. Further, given the resources available to ShawCor with a far larger revenue base than those of its competitors, it can reinvest in R&D to a degree that is completely unmatched in the industry, improving the value of its solutions to the owners of oil and gas pipelines.

ShawCor's coating business is exposed to both the upstream and midstream areas of the oil and gas industry. Although demand for upstream gathering pipelines has been hit by the decline in the oil price, the cycle for natural gas midstream transmission pipeline infrastructure operates within a different dynamic. Here ShawCor works with both large and small projects and with a variety of customers in many parts of the world. Given its dominant position as the leading supplier, it should be able to manage through the current cyclical headwinds to emerge stronger when energy prices recover.

Established in the 1930s and listed in 1969, ShawCor was controlled by its founding family via a dual share class structure until 2013 when the third generation of the family sold down its stake. A smooth management succession occurred during this period, as ShawCor brought on a former Schlumberger executive to take the reins of the company from the previous CEO, (28:01) who had successfully led ShawCor from 2005 to 2014. The current management team that has decades of experience in this industry is mandated to maintain the firm's 15% return on invested capital target, as well as to grow profits at an attractive rate through the admittedly lump business cycle that ShawCor's exposed to.

At the time of purchase, we invested in ShawCor at a high single-digit to low teens free cash flow yield and a significant discount to what we believe the business is worth based on our view of normalized profitability through the cycle.

Pierre?

Pierre: Thank you very much, Jason. To conclude we'd like to reiterate, as we do each quarter, the key tenets of our investment philosophy. We are absolute, not relative, long-term value investors with a strong bias towards quality. We look for well run, financially strong, high quality businesses with stocks we can purchase at a significant discount to our estimates of their intrinsic values. We only invest when presented with such opportunities, and we'll hold cash in their absence. With that, we have no further prepared remarks and would like to open it up for question.

Ryan: Thanks, team. At this time we'll be happy to take questions, and on your screen you should be able to see the dialog box where you can submit questions. We'll pause for just a moment as we compile them. Thanks.

Great. I think the first question we have is one that was pre-submitted on Prada. Pierre?

Pierre: (30:02) So the question was: can you discuss why you think Prada is worthy of a high valuation? You continue to increase our investment, but I fail to see margin of safety in the valuation. So, Matthew, I do not agree obviously that Prada is currently at a high valuation, and that is a function of how we look at things of course, including our long-term view of businesses, how we think about an asset's intrinsic value, and how that all ties back to our focus on quality. When you look at where the trades today for Prada specifically, it implies a multiple of current operating profit that's in the teens, which on the face of it isn't very compelling. But let's consider what is currently happening to this business and how that may affect this multiple or rather the denominator, meaning its operating profit.

Prada, as you know, is one of the leading luxury brands globally. As such, they benefit from wealth creation, from fashion, and from conspicuous consumption. These three things, thank God, are generally abundant around the world but, as you may be aware, up until recently particularly abundant in Asia and specifically in China. Now as you know, China is going through a combination of anti-gifting policies, anti-corruption initiatives which make being conspicuous about wealth a bad idea, and increasing weakness in its economy. As a function of that, Prada is a business that hasn't grown revenues at all in Hong Kong dollars terms in three years, which is in sharp contrast with the sort of high single-digit organic growth that these types of businesses have typically been able to deliver over prolonged periods of time.

(32:00) Now in this business, you don't want to cut marketing and advertising, product development and the likes too much when things go south in the short terms because that would kill the golden goose in the long term. And part of the business is retail, which typically carries some fixed costs, and again you wouldn't want to give up good locations. So with weaker growth, both operating profits and margins have come down by more than 30% at Prada in the last three years, and similarly your asset base doesn't move much in the interim. So returns have also come down by more than 40% in that period.

So the question you need to ask yourself is whether you think this is more short term or more structural in nature. If you think it's structural, that China is dead, that vanity is dead, that leather goods are dead, and that the retail model is dead, then the value valuation probably looks expensive. If on the other hand you think maybe this is kind of like what happened to these businesses back in 2009, that maybe there will continue to be wealth creation and aspirational buying and self-gratification longer term, and that Prada has the type of brand appeal to be able to take advantage of these things, then maybe we need to look at the multiple using more of a normalized operating profit. And if you do that, you may find that Prada stock is in fact trading at, say—and I'm not saying this is the right number; this is for illustration purposes—nine time.

Now of course if you think Prada is a mediocre business, you may still think that the valuation is high. If you like the brand equity, the strong leather goods positioning, the product portfolio opportunities, the retail presence, the broad geographic presence, the owner/management, the net cash positive balance sheet, and the history of high growth, margins, cash generation, and returns, then maybe you think the business is sustainable, if not rather appealing and possibly worth a little more than nine time.

(34:00) How much more? Well, say you would never pay more than 15 time for any business for the sake of the argument because the implied cash flow growth even at a low cost of equity expectation is just too high, and you started from that point. Maybe there are things about Prada you still don't like—like the key person risk, the focus on fashion goods, the high retail exposure to China, and the general intangibility of brands and consumer preferences. Maybe then you say it's not the best business in the world, but maybe it's good enough quality-wise to warrant, say, 13, 13.5 time. And again I'm not saying it's the number; I'm just backing into it. And maybe then you think it's currently giving you 50% upside. Then you'd probably take a step back and also look at the balance sheet and say, well, I'm not taking much of a chance here because it's net cash positive. And then you look at who is running this business and you'd say, if something bad happened, they're in it with me. And then you could also look at the dividend yield and say, I'm kind of getting paid to wait for things to get better on top of it. And with that, maybe you say there's actually enough margin of safety here.

Ryan: Thanks, Pierre. We had two questions as it related to the cash position in the Fund, and so I thought we could just handle that first.

Pierre: There's more popping up, so I'm just going to take them one-by-one if that's okay. The first one is: help me understand how, with your discounted valuation, how you can be in a holding like Totvs that drops 39%. Do you think there is a discount of 30% when you buy and it drop 30%? Are you really looking to buy and continue to hold the stock down almost 70% from your original analysis? Thanks for the education.

So I'll give you two answers on that. The first one is, if you go back to the prepared remarks, you'll hear how I'm talking about buying late in the quarter and how the window of opportunity was short. (36:00) And then later I talk about new additions to the portfolio from most recent to least recent, and the one that pops up there is Totvs. So if you're looking at how badly the stock has gotten bitten, not only local currency but even more so in U.S. dollars, that's before bought it. So that's precisely why we're kind of excited about it… is because the share price has come down so much, but more importantly because that by itself doesn't tell you anything because the discount to intrinsic value is wide enough to be in excess of the 33% threshold that we require.

Now the second I want to give you on this is that we do that sometime—and we've done it and you've seen it—where we kind of step in front of a negative sentiment, and things just get worse. Typically things get worse before they get better. And we just made a new investment two days ago that I anticipate will be very similar to that. It doesn't really matter to us. The fact that there's across the fence yelling that the business we just bought is worth even less for one day just doesn't do anything to us. If it gets cheaper, then we'll have the opportunity to buy more of it. But that doesn't really change what we think it's worth, and we're comfortable with that kind of volatility. It's kind of the schizophrenia of investing in this market… is on the one hand you're saying those prices make no sense, and I'm going to take advantage of that madness to make myself a lot of money. And on the other hand you're constantly looking at it as it is telling you anything as to the value of what you own. So a holding that we've made the work on that met all the investment criteria that we have that happens to be down doesn't really tell us anything.

But in the case of Totvs specifically, we're buying on the back of that decline, which by the way won't tell you anything. It could very…

(38:00) just because the stock is down 70% doesn't mean that it's not going to go down another 70. So we're buying it after that correction, but it could very well continue to go down.

If you had large redemptions, for example 20% of the Fund, would you meet that through your cash holdings or a proportionate share of the portfolio so that you're able to keep your relative cash position in tact? So the total asset base has no impact on the amount of cash that we hold. It'd be proportionately adjusted according to the redemption.

How has Fund flow looked recently? Is that a factor behind the fall in the cash position? So Fund flows have been slightly negative on a daily basis, and I think that's a function of the fact that in a very difficult investment environment we haven't been very, very active in doing any marketing activity. And is that a factor behind the Fund cash position? Back to what I just said, absolutely not. The cash position is exclusively the four new positions that we've added to the portfolio, along with some positions that have continued to come down and that we've been adding to as the discount was widening.

Rather than hold so much cash, why don't you buy larger positions? Well, yes, that's exactly what we do. We have by design a portfolio that we would argue is relatively concentrated, although I think it provides all the diversification benefits that you need. If you step back in the history of the Fund, we started the Fund as a diversified vehicle. And as the investment opportunity set kind of shrunk on us and we were adding and adding to the few positions that were still meeting our criteria, (40:02) which is what you're suggesting—so that's what we were doing—we ran into the issue of over-concentration under the specifications of a diversified vehicle. And we re-filed as a non-diversified vehicle so that we could do exactly that. So what you're suggesting is exactly what we do.

Now the limit to this is how much concentration do you want to have in a given portfolio? Now we are very believers in concentration. What's the point of doing all the work that we do if we're not going to focus on our best ideas? And if we're going own 150 names, then we don't really need to do that kind of work. The risk management comes from diversification more so than knowledge in that scenario. So we want to have a relatively concentrated portfolio.

At the same token, once you start getting closer to 15, 13, 12, 10 names, you're moving pretty rapidly down the slope of risk associated with concentration, as research has showed. And so what we've effectively said is that there's a point of concentration that we're not willing to go beyond. So you're constantly trying to make the arbitrage between those two, and that's how the portfolio is ultimately managed. But in theory that's what we do. When we have cash and we have positions that are offering the kind of discount that we need, we keep adding to them.

The last thing I would add to this, because it's never that simple obviously, but we have also to be mindful of what stake we are taking in individual companies and the liquidity of these stakes. But by and large you're exactly right. That's exactly how it works.

By looking at the chart on your estimated discount to intrinsic value on the FPA website, (42:00) it appears you'd be saying now is the best opportunity to invest in FPA International Value since the Fund's inception. Am I reading this right? That is what it would imply. Yes, I believe the discount's never been that high, and I think it's… But let me take a step back. That was the case as of September 30th, yes.

There's a question on the ticker around ShawCor. I don't know. The Bloomberg ticker is SCLTM? I don't know anything about that stuff.

What do you think of the outlook for Argentina given the expected change in president? So as we may have mentioned in previous calls—I don't remember—or maybe in individual meetings, Argentina is a country that we visited a few years back as… What we do as long-term value investor is the first thing we do is we need to make sure that we have a sustainable, legitimate, long-term claim on the assets that we invest into or the stream of free cash flow that's being generated otherwise the whole philosophy cannot be implemented. So for that to happen, we need to be investing in countries that have a reasonable rule of law and where that rule of law is implemented in a relatively transparent and fair manner. If you take it literally, that leaves very few country. But more practically what we're trying to do is we're trying to eliminate some of the places where we're not comfortable because we could be the arbitrary victim of some state crime. So that list of non-investable countries include places like Russia. And what we're trying to do is we're trying to visit these country as a political situation's never static. (44:04) Especially if you look towards Southeast Asia, there's quite a bit of volatility there. And so we go back and we reassess when there are some moves.

But we went to Argentina a few years back after she had taken over, and it was one of the most entertaining trip, I would say, that we've ever had, and it was pretty evident that the country was headed in a very ugly direction and that we could not be invested in that market. And despite the fact that we had identified companies that we thought were trading on cents on the dollar at the time, we decided we would not invest in that market so long as the current regime was in place. So we'll see if there is an expected change in president. We'll see. It's not guaranteed yet. And then we'll see what happens. We'll probably at that point go back and revisit and decide whether we can make this specific market into an investable country.

With majority focus on U.S. stake, are there equivalents to the Google/Microsoft/APL type firms in E.U. or other DM? i.e. SAP (inaudible) Investable? Not entertained given lack of discount? So SAP is investable, and that's why we've been invested in it since the inception of the Strategy. We are incidentally invested in a very similar business that happens to be based in the U.S. As we pointed out, amongst the new additions to the portfolio in the quarter is Totvs, which is a provider of enterprise resource solution software. So they are investable businesses like that, we do invest in them, (46:00) and we own a few of them.

Ryan: Thanks, Pierre.

Pierre: And just… I'm looking at the names on the U.S. side. For what it's worth, we're also invested on Google and Microsoft on the world front.

Ryan: Thanks. I think we answered all the questions that were submitted beforehand and during the call. If for some reason we missed any or you have any additional questions afterwards, feel free to email us at crm@fpafunds.com.

Thank you, team. And to our listeners, we would like to thank you for your participation in today's third quarter 2015 webcast. We invite you, your colleagues, and clients to listen to the playback and view the slides from today's webcast, which will be available on our website, fpafunds.com, over the next week or so. We urge you to visit the website for additional information on the Fund, such as complete portfolio holdings, historical returns, and after-tax returns.

Following today's webcast, you will have the opportunity to provide your feedback. We highly encourage you to complete this portion of the webcast. We do appreciate and review all of your comments.

Please visit our fpafunds.com in the future for webcast information, including replays. We will post the date and time of the prospective webcasts during the latter part of each quarter, and expect the calls will generally be held three to four weeks following each quarter's end. We hope that our shareholder letters, commentaries, and these conference calls will help keep you, our investors, keep appropriately updated about the Fund.

We do want to make sure you understand that the views expressed on this call are as of today, October 30th, 2015, 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 and should not be construed as an offer or solicitation with respect to any such securities, products, or services discussed.

(48:00) Past performance is not a guarantee of future results. It should not be assumed that 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 directly from the Fund's distributor, UMB Distribution Services LLC, or from our website, fpafunds.com. Please read the prospectus and the policy statement carefully before investing. FPA International Value Fund is offered by UMB Distribution Services LLC.

Again thank you again for your participation and this concludes today's webcast.

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