FPA Crescent Fund

Fourth Quarter 2017 Commentary

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 (%)

										Market Cycle Performance	
As of Date: 12/31/17	Since 6/2/93	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTR	3/25/00-10/9/07	10/10/07-12/31/17
FPA Crescent Fund	10.38	8.64	9.16	7.25	9.16	6.03	10.39	10.39	2.90	14.70	6.92
S&P 500	9.63	7.20	9.92	8.50	15.79	11.41	21.83	21.83	6.64	2.00	7.67
MSCI ACWI	-	-	-	-	10.80	9.30	23.97	23.97	5.73	-	4.12
60% S&P500/40% BBgBarc US Agg	8.18	6.62	7.82	6.98	10.25	7.80	14.21	14.21	4.12	3.97	6.58
CPI	NA	2.16	2.09	1.61	1.40	1.60	2.03	2.03	0.65	2.75	1.71

Periods greater than one year are annualized. Performance is calculated on a total return basis which includes reinvestment of all distributions. Comparison to any Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

* The Fund commenced 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. FPA Crescent Fund's objectives, policies, guidelines, and restrictions are, in all material respects, equivalent to those of the predecessor fund.

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.

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.

Please see important disclosures at the end of the commentary.

Introduction

Dear Shareholders:

December capped a banner year for the S&P 500. For the first time ever, it delivered a positive return in every month, setting more than four dozen new records along the way.

Our conservatively postured FPA Crescent Fund ("the Fund") returned 2.90% in the fourth quarter of 2017. This compares to the S&P 500's 6.64% return and the MSCI ACWI's 5.73% return in the same period. For the full year, the Fund returned 10.39% compared to 21.83% for the S&P 500 and 23.97% for the MSCI ACWI.

Portfolio Commentary

The Fund's top five performing positions added 4.33% to our full year return while the bottom five detracted 2.44%, with almost half of that due to the Naspers/Tencent pair trade mentioned in previous commentaries.[1] Naspers trades at an irrational $52 billion discount to its investment in Tencent with its remaining businesses thrown in for free. We hold out hope for the day when it's priced more reasonably. General Electric (GE) cost the Fund 0.62% last year and warrants a longer discussion that we include in the Investing section below.

Winners and Losers[2]

Winners	Performance Contribution	Losers	Performance Contribution
Q4 2017			
Mylan	0.47%	General Electric	-0.29%
Bank of America	0.46%	Esterline Technologies	-0.23%
Microsoft	0.38%	Aon	-0.22%
TE Connectivity	0.32%	Owens-Illinois	-0.15%
Cisco	0.32%	Meggitt	-0.11%
	1.95%		**-1.00%**
2017			
Oracle	0.92%	Naspers/Tencent Pair Trade	-1.18%
Bank of America	0.91%	General Electric	-0.62%
Microsoft	0.88%	Esterline Technologies	-0.22%
Arconic	0.86%	American International Group	-0.22%
TE Connectivity	0.76%	WPP	-0.20%
	4.33%		**-2.44%**

Not much in the way of news influenced the returns of the other investments amongst the winners and losers.

The Fund's long equity book that generally represents the largest portion of its risk exposure returned 21.07% (gross) in 2017, lagging the S&P 500 by 0.76% and the MSCI ACWI by 2.90%. Over time however, your portfolio managers have added alpha of 2.75% and 5.69% over the S&P 500 and MSCI ACWI, respectively.

[1] Preliminary data as of December 31, 2017. Previous commentaries to reference: Q2 2017, Q3 2017
[2] Reflects the top contributors and top detractors to the Fund's performance based on contribution to return for the quarter and year. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented.

Active Security Selection Drives Differentiated Returns

	2007 - 2017 CAGR	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
FPACX long equity	10.96%	21.07%	15.57%	-0.64%	13.64%	38.12%	17.77%	4.58%	22.48%	38.66%	-38.27%	11.47%
S&P 500	8.22%	21.83%	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	2.75%	-0.76%	3.61%	-2.03%	-0.05%	5.73%	1.76%	2.47%	7.42%	12.20%	-1.27%	5.98%
MSCI ACWI	5.26%	23.97%	7.86%	-2.36%	4.16%	22.80%	16.13%	-7.35%	12.67%	34.63%	-42.19%	11.66%
Alpha vs. MSCI ACWI	5.70%	-2.90%	7.71%	1.72%	9.48%	15.32%	1.64%	11.93%	9.81%	4.03%	3.92%	-0.19%

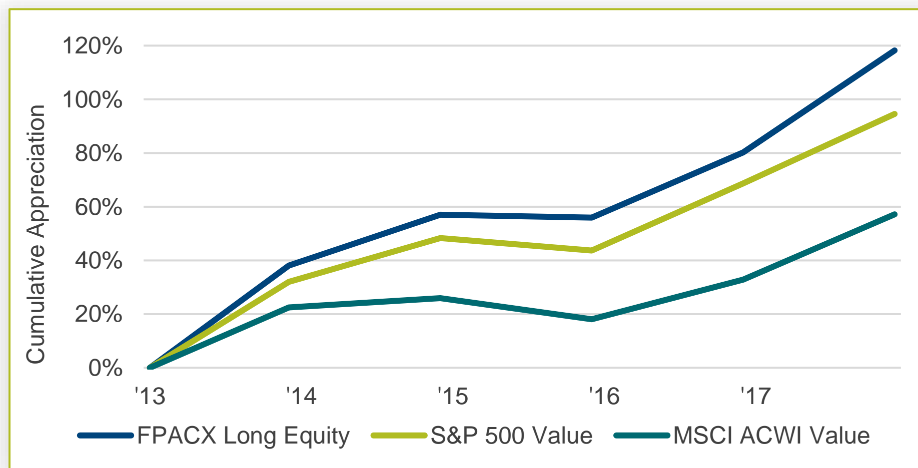
Our bread and butter — value stocks — continue to lag the overall market. Value stocks trailed the S&P 500 by 6.47% and the S&P 500 Growth index by 12.08%, their worst calendar year performance since 1999.

2017 Value vs. Growth

S&P 500	21.83%	MSCI ACWI	23.97%
S&P 500 Value	15.36%	MSCI ACWI Value	18.26%
S&P 500 Growth	27.44%	MSCI ACWI Growth	30.00%

Value has been out of favor since 2013. The Fund's long equity book did, however, substantially outperform both the S&P 500 Value and MSCI ACWI Value indices as seen in the following table.

FPA Crescent Long Equity vs. the Value Indices



What has proven more important than our security selection over this market cycle is that the exposure to long equities and other risk assets has been too low in retrospect. There is no hiding from the fact that this underweighting has reduced the benefits of the excellent performance of our long book. In our efforts to deliver equity rates of return while avoiding a permanent impairment of capital, we generally err on the side of caution. That said, when opportunities once again reveal themselves, please know we are ready to take advantage of them.

Markets and Economy

We are bottom-up investors who work to build a strong understanding of businesses and industries. We decide what companies we would like to own and the market decides if it would like to offer them to us at a price that provides an attractive risk/reward. Once we identify a business we would like to see in our portfolio, we await a time it might reasonably be delivered to us.

The macro picture is only an afterthought. The larger environment might help explain why we buy more or less of something but it certainly does not drive the Fund's overall exposure. Understanding where the world is and the prices markets are offering us for the assets we'd like to own helps to explain the Fund's positioning.

We lack any ability to prognosticate, but here's what we know…

Global stock markets have not been inexpensive enough for a number of years to offer the potential for high single-digit rates of return and are now trading at new highs. We continue to believe there isn't enough of a margin of safety[3] to warrant a fully-invested portfolio. Stocks that were not inexpensive before are even less so now with U.S. large cap valuations valued in the 97th percentile and global stocks in the somewhat more attractive 77th percentile. Government bond prices are close to all-time highs despite yields being off the bottom. Corporate bond yields are also near their all-time lows. High-yield corporate bonds hardly offer much more return and carry more risk. If history is any guide and defaults and recoveries reach past levels, then the expected return of U.S. junk bonds would be less than one percent better than U.S. Treasuries while European junk yields would be negative. There are more levered companies now than there have ever been. The levered companies are, on average, carrying more debt than in the past and with reduced investor protection (e.g., weaker covenants). High valuations and a low margin of safety explain our low risk exposure of 63.3%[4]

Unlike us, most investors shake off their concerns because global economic growth has been okay albeit lower than in the past. Corporate operating margins continue to reach new highs for this cycle and any cycle that has preceded this one. The 40% decline in U.S. corporate tax rates will help increase the earnings of many domestic companies but much of that already looks like it is baked into current market valuations. Giving an additional lift to public markets is the fact that the supply of shares has been declining. Mergers and leveraged buyouts have reduced the number of public companies and public companies have been active repurchasers of their own shares.[5]

Given the low, low level of interest rates, there seems to be little in the way of investment alternatives. Either because of that or as a result of it, volatility hit its lowest level ever last November at 8.56 intraday[6]… all of which leads to happy and bullish investors because what goes up must only continue to rise, right? Yardeni Research publishes a survey of market sentiment and, as seen in the following chart, bulls currently outweigh bears almost 5:1 – the most bullish ratio in more than thirty years.[7]

[3] Buying with a "margin of safety," a phrase popularized by Benjamin Graham and Warren Buffett, is when a security is purchased for less than its estimated value. This helps protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

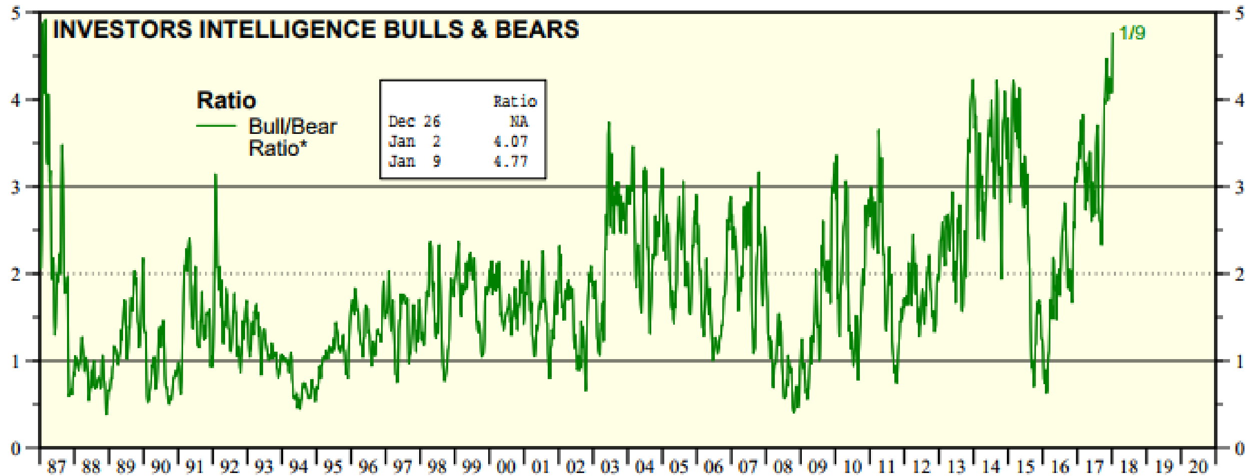
[4] As of December 31, 2017

[5] For data and charts to support the above, please refer to the charts that will be posted at www.fpafunds.com along with our Q4 2017 Conference Call transcript.

[6] VIX traded at 8.56 intraday on 11/24/2017

[7] Yardeni Research, January 17, 2018 - https://www.yardeni.com/pub/peacockbullbear.pdf

Investors Intelligence Sentiment



As Prince sang, "Sign o' the times mess with your mind..."[8] Here's the mind-bending reality we're wrapping our brains around in this bullish environment:

- Cryptocurrency trading and valuations have reached mania proportions. Chris Larsen, the co-founder and largest shareholder of the cryptocurrency company Ripple, temporarily became the world's fifth wealthiest person on the planet in early January when he was worth $59.8 billion.[9] For a moment, he was wealthier than the founders of Google and Oracle, the Koch brothers, and Michael Bloomberg. Oh, and he was "only" worth less than $5 billion a month earlier.

It makes the gold rush seem slow. Prince's next line in that song is, "Hurry before it's too late!" A lot of people seem to invest, sadly, based on that philosophy. More realities:

- The governments of Italy, Greece and Portugal can borrow at a lower rate than the U.S. for a 2-year term. The same is true for 10-year bonds issued by Italy and Portugal. The U.S. may not have its financial house in order but we would take its bonds over these alternatives.

Global Government Bond Yields[10]

Country	Yield on 2-Year Government Bond	Yield on 10-Year Government Bond
United States	2.00%	2.53%
Italy	-0.32%	1.98%
Greece	1.36%	3.86%
Portugal	-0.29%	1.77%

- High-yield European corporate paper now has the same yield as US Treasuries.[11]

- Index funds & passive ETFs now own approximately 20%-25% of the stock of the typical small-cap company.

- North Korea launched a ballistic missile over Japan on August 29, 2017 and the Nikkei was higher by the following day.

- Stockpile,[12] a startup website and app, brings trading to kids, allowing them to buy fractional shares of their favorite stocks or ETFs. It lets them "start investing with just $5" with "no hidden

[8] Sign O' The Times, Prince.
[9] As of January 4, 2018
[10] As of January 15, 2018
[11] As of January 18, 2018
[12] https://www.stockpile.com

fees" so "kids and teens can track their stocks, create a wish list and even place trades you (the parent) can approve" all for "only 99¢ per trade with no monthly fees or account minimum." I'm not sure of a typical child's wherewithal but if my two youngest daughters busted open their piggy banks, they probably would not have more than $50 between them. Maybe that's not typical but assuming the minimum advertised account balance ($5) is used to buy one security, then the 99¢ commission equals 19.8% of the total value. Seems as though it might be a good lesson on how to lose money! (Not to worry though, Mom or Dad can purchase a gift card to offset the transaction costs in increments as low as $10.)

John Kenneth Galbraith reminds us in his book *A Short History of Financial Euphoria* of "the extreme brevity of the financial memory. We quickly forget financial disasters and the circumstances that brought them about, and as a consequence, when the same or closely similar circumstances arise again, sometimes in just a few years, they are hailed by a new, often youthful, and always extremely self-confident generation as a brilliantly innovative discovery in the financial and larger economic world." For Galbraith, it becomes a consistent cycle of "illusion to disillusion and back to illusion…. There can be few fields of human endeavor in which history counts for so little as in the world of finance."[13]

Even though stocks can rerate faster and give back the gains more quickly than they were made, we have no idea when a downturn might come. It could be tomorrow, next month or sometime in the coming years. When we think about what could change, we appreciate that more things might happen than will happen. We also appreciate that we cannot identify all that could go wrong.

Here's what we don't know…

- What if several big economies fall into recession? The U.S. is already in its third longest economic expansion. The EU is still guided by an unproven mix of central monetary authority and decentralized fiscal responsibility. Political instability persists there and elsewhere.
- China – thanks to a rapid accumulation of debt in the shadow banking sector - could suffer a cascade of defaults, stymieing lending.

And could there be:

- political and/or social upheaval in a part of the world that affects Western economies?
- higher inflation which leads to higher interest rates?
- a loss of control by Republicans of the House and/or Senate and a negative reaction by investors to the specter of greater regulation, higher taxes and general uncertainty?
- terrorist (including cyber) strikes at home or at some place that hits too close to home?
- a war or some serious jingoistic saber-rattling?
- a loss of faith in central banks?
- a decline in the value of cryptocurrencies that destroys hundreds of billions of dollars of value? Cryptocurrencies currently have a value of at least $784.8 billion.[14]

After Bull Market Year 8 ended in 2016, we talked about how complacency leads investors to believe they have a greater risk tolerance. Now, after Bull Market Year 9, we're beginning to see a level of excitement that reflects something more akin to *risk ignorance,* which has led us to a lower-than-average exposure to risk assets.

[13] *A Short History of Financial Euphoria*, by John Kenneth Galbraith
[14] Source: www.coinmarketcap.com. As of January 7, 2018

Investing In A WTF World

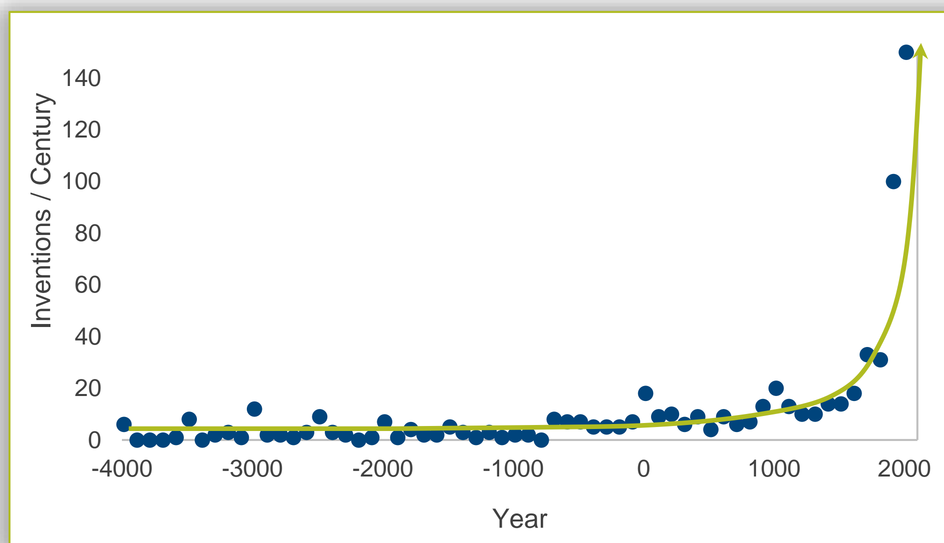
My mother recently asked me what WTF means. I told her, "Wow, that's fantastic!" Now she uses it all the time. For the purpose of the following discussion, we will go with her definition although fantastic might mean something dramatically different to each of us.

Man invented the wheel about 6,000 years ago. People could begin to move themselves and their belongings around more easily. Once you had a wheel, your life was better, more productive and you couldn't imagine life without it. The first time someone saw it, he or she probably had one of my mother's WTF moments. Fantastic in one generation becomes ordinary in the next and may even foment further innovation.

If someone fell asleep and awakened 100 years later, how different would he or she find the world? If you fell asleep in Japan late in the 14th century and awakened late in the 15th century, you might be able to study from a book that came from Europe thanks to the printing press. Johannes Gutenberg's mechanical moveable type democratized knowledge. It became easier to teach and learn both old and new ideas.

Significant inventions were infrequent until we get past 1,000 AD. We curated a list of historical inventions and innovations by aggregating lists created by other more qualified sources.[15] Appreciating the difficulty in assigning exact dates to various inventions, we aggregated inventions into 100-year increments. As you can see in the following chart, the density of innovation was fairly evenly spread in the early years, post wheel. The pace picked up in the first millennium AD and has accelerated dramatically in the last couple of centuries.

Accelerating Technological Change
4000 BC to 2100 AD



If one were to extrapolate the innovation pace thus far in the 21st century (e.g., global positioning systems, mapping the human genome, self-driving cars, VOIP, cloud computing, social networking, 3D printing, artificial joints and limbs, synthetic organs, etc.), we would be on pace for more than 180 inventions and innovations this century and the above chart would have to be rescaled.[16]

My slow appreciation that accelerating change could challenge some of the less dynamic businesses of our more traditional value investments was an error of omission. I say "my" rather than "our" because on our team, I was probably the most entrenched philosophically. Fortunately, Mark Landecker exhibited

[15] KrysStal, January 17, 2018; The Atlantic, November 2013; The Telegraph, January 11, 2018; ABC News, December 1, 2009; Wired, February 1, 2013; Complex, August 18, 2010; The Richest, November 23, 2013; emaze; March 2015; Wikipedia, January 2018

[16] Not that it is remotely reasonable to extrapolate the first 17% of the 21st century.

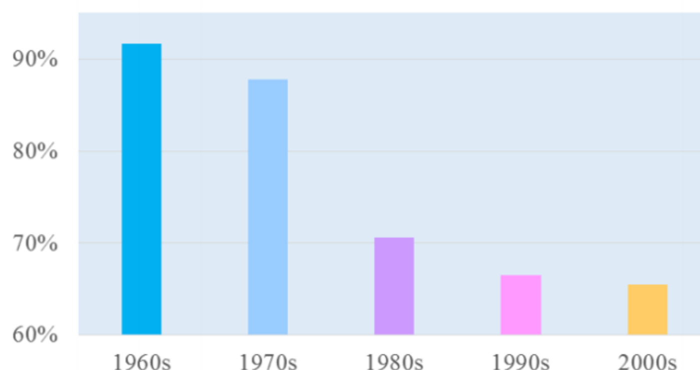
greater flexibility and, over the last number of years, has helped move our portfolio more in the direction of reasonably priced, higher quality, growing companies. We describe these in our Contrarian Value Investment Policy Statement as “Compounders – The world’s great businesses. Unquestionable competitive strength. Solid balance sheets. Shareholder-centric management.”

Traditional value investing – buying a business or asset at a discount that offers the potential for upside appreciation while providing downside protection – isn’t what it used to be. First, good historic returns for value investors attracted a lot of capital that arbitraged inefficiencies from the market. Then the world began to change ever more quickly. New and rapidly improving technology has created new businesses, harming old ones in the process. Life-altering inventions have allowed us to connect digitally professionally and personally, farm more, live longer and better, drive cleaner and not get lost along the way.

Accelerating change swirls around us, placing us in a middle of a vortex that is not without investment implications. The existential risk to corporations is greater than it has ever been. Businesses are disappearing. Digital photos KO’d Eastman Kodak. Mobile phones continue to cannibalize fixed wire lines, disconnecting the Old Bells. Video on demand replaced Blockbuster. Satellite television stole cable customers but now cable companies offering high-speed data, TV, home and wireless telephone service, a quadruple threat, have begun to take back share. Advances in renewables affect the economics of companies dependent on fossil fuels. Ride share today and autonomously driven cars tomorrow threaten auto manufacturers. And Gutenberg’s printing press is being mothballed thanks to PCs, cell phones, tablets and e-readers. The Internet and Facebook are spreading information (thankfully, some of it useful) at greater speed and volume than Herr Gutenberg could ever have imagined.

Corporate lifespans are getting shorter, as can be seen in the following mortality chart[17].

Likelihood of Surviving the First 5 Years of Exchange Listing



Corporations in the 1960s would list on a stock exchange and be expected to remain in the index for at least five years before they were either acquired, bankrupt or overtaken in market capitalization by other public companies. That was expected to be the case more than 90% of the time but those odds have since fallen to the mid-60% range and are continuing to decline.

In the late 1970s and early 1980s, the average company had been in the S&P 500 for almost 40 years. The fervor of the dotcom era temporarily gifted some businesses with very large market capitalizations crowding out more established companies from the index, pushing a company’s average tenure from a little more than 30 years to the mid-teens in just a few years. Many of those companies shrank or failed and the average lifespan creeped back up to about 25 years. Now, however, many relatively young businesses have disrupted the economics of their older brethren. Innosight, a management consulting firm, published a study that suggests that the average lifespan of a company in the S&P 500 index is expected to hit a new low of 12-13 years.[18]

[17] Vijay Govindarajan, Anup Srivastava. “Strategy When Creative Destruction Accelerates”, September 7, 2016
[18] Scott D. Anthony, S. Patrick Viguerie and Andrew Waldeck. “Corporate Longevity: Turbulence Ahead for Large Organizations” *Innosight*, Spring 2016

Investing

A case in point is GE. It is the only company currently listed in the Dow Jones Industrial Index that was included in the original 1896 index. One can only wonder if its Dow days are numbered.

Our investment in GE was a disappointment. We sold our last shares of GE earlier this month.

We expected that GE's pivot away from financial services and towards industrial businesses would result in a stronger and more valuable enterprise. The company did materially shrink its exposure to the finance business but what emerged was a company with too much dependence on its legacy power generation business (and questionable accounting). We reduced our position at a nice gain but were slow to recognize the magnitude of these issues, which GE amplified by its generally poor corporate governance and an entitled corporate culture. Subsequent losses on our remaining stake wiped out our initial profit.

When we model a company's potential outcomes, we do not try to predict earnings this year or next, let alone this quarter. We build a low, base and high case. We make investments in those businesses that should offer a reasonable rate of return in our base case, have upside to the high case and the low case should not be too bad. Furthermore, we expect the base or high cases to be more likely than the low case.

In our low case for GE, we did not expect the massive losses from an insurance business that the company exited in the mid-2000s. Nor did we account for what is tantamount to accounting fraud: the mismarked book of power projects.

Despite GE's horrific results, the Fund did not lose much money in this investment. It was fortunately a small position purchased at a price that offered a margin of safety, costing the Fund just $1.3mm, or 0.03%.[19]

A small comfort but minimizing the downside is indeed the point of being a value investor. However, the S&P 500 has appreciated more than 45% since our original 2015 GE purchase. We certainly could (and should) have had that money invested in something else that could have participated along with it.

A good investor must always understand the competitive pressures from existing and new businesses and technologies but we would argue that it holds even greater importance today. We have evolved to recognize that many of the better investment opportunities have seen the margin of safety shift from the balance sheet to the business. A business that can increase its free cash flow over time and appropriately reinvest or distribute that cash flow might afford greater downside protection than another business that could be liquidated at a premium to its current market price but whose cash flow is not growing and, worse, could shrink if it finds itself faced with new, more innovative competition. We face the daily choice of change or decay. We opt for the former. Whereas we once might have been more willing to buy mediocre businesses at unbelievable prices, we are committed to buying good businesses at great prices and great businesses at good prices.

Current portfolio examples of such are Analog Devices, Alphabet (Google's parent), Microsoft, TE Connectivity, Thermo Fisher Scientific, and Baidu. We purchased these companies at inexpensive multiples and held them despite higher multiples due to their long runways for growth, unlike other companies that we have been quicker to sell.

As we pointed out earlier and as has been the case for far too long, such assets and businesses are not inexpensive. This has not, of course, stopped the inexorable march to new market highs. We believe that Mr. Galbraith would opine that the security markets are in the illusion part of the cycle.

We still find time to allocate resources and capital to more commercial opportunities. We find disillusion not far from our shores in Puerto Rico. During the quarter, we began to establish a position in debt issued in and by the Commonwealth through Puerto Rico General Obligation (GOs) bonds and the territory's sewer and water systems. In our view, the deeply discounted prices more than compensate for over-

[19] Including dividends.

encumbered balance sheets and all too real challenges following Hurricane Maria. While highly uncertain, we are optimistic that recoveries can meaningfully exceed our cost under either consensual or court-directed resolution.

Closing

The market is a pendulum that swings back and forth. It will come back our way as it always does. An investor has two choices: wait for opportunity, then invest, or invest regardless of opportunity. We select the former, as we always have. There can be a cost to waiting. It might mean underperformance for a spell. It might mean losing assets under management. Although uncomfortable at times, we have experienced and expect to continue to experience both.

The cash we carry is hopefully a down payment on higher future returns, both relative (in a market sell-off) and absolute (as sidelined capital gets put into play).

Success will come to those with a compass. We know our true north and move in that direction each day.

Respectfully submitted,

Steven Romick
Portfolio Manager
January 22, 2018

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. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpafunds.com.

As of 12/31/2017, the securities mentioned and corresponding position sizes were as follows: Mylan: 1.8%; Bank of America: 2.9%; Microsoft: 2.8%; TE Connectivity: 2.4%; Cisco: 2.4%; General Electric: 1.8%; Esterline Technologies: 2.9%; Aon: 2.8%; Owens-Illinois: 2.4%; Meggitt: 1.4%; Oracle: 4.1%; Arconic: 2.4%; Naspers/Tencent: -0.8%; Anerican International Group: 2.7%; WPP: 1.5%.

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 Morningstar Nominee for the Manager of the Year award is presented each year to recognize a manger's past achievements. Morningstar fund analysts narrow the universe for the award, and the winner is then selected by Morningstar's entire team of mutual fund analysts. The award is presented to fund managers who have distinguished themselves over the past calendar year and have achieved strong risk-adjusted historical performance through the careful execution of a solid investment strategy and responsible fund stewardship. Past performance is no guarantee of future results.

Index Definitions

The S&P 500 Index includes a representative sample of 500 hundred 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.

MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices.

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 (CPI) is an unmanaged index representing the rate of the inflation of U.S. consumer prices as determined by the U.S. Department of Labor Statistics. The CPI is presented to illustrate the Fund's purchasing power against changes in the prices of goods as opposed to a benchmark, which is used to compare the Fund's performance. There can be no guarantee that the CPI will reflect the exact level of inflation at any given time.

60% S&P500/ 40% Barclays Aggregate Index is a hypothetical combination of unmanaged indices and comprises 60% S&P 500 Index and 40% Barclays Aggregate Index, the Fund's neutral mix of 60% stocks and 40% bonds.

Indices are unmanaged, do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. Investors cannot invest directly in an index.

Other Definitions

Alpha – the excess returns of a fund relative to the return of a benchmark index.

ETF is Exchange Traded Fund. It is a fund that tracks an index, but can be traded like a stock.

Long Equity Performance represents the performance of stocks that the Fund owned over the given time periods and excludes short-sales, limited partnerships, derivatives/futures, corporate bonds, mortgage backed securities, and cash and cash equivalents.

Price-to-Book (P/B) - A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

Intrinsic Value refers to the value of a company, stock, currency or product determined through fundamental analysis without reference to its market value.

Trailing twelve month earnings – the sum of a company's earnings per share for the previous four quarters.

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