

As of December 31, 2018



# FPA Capital Fund, Inc. (FPPTX)

Second Half 2018 Webcast Presentation

Presented by:

Arik Ahitov, Portfolio Manager

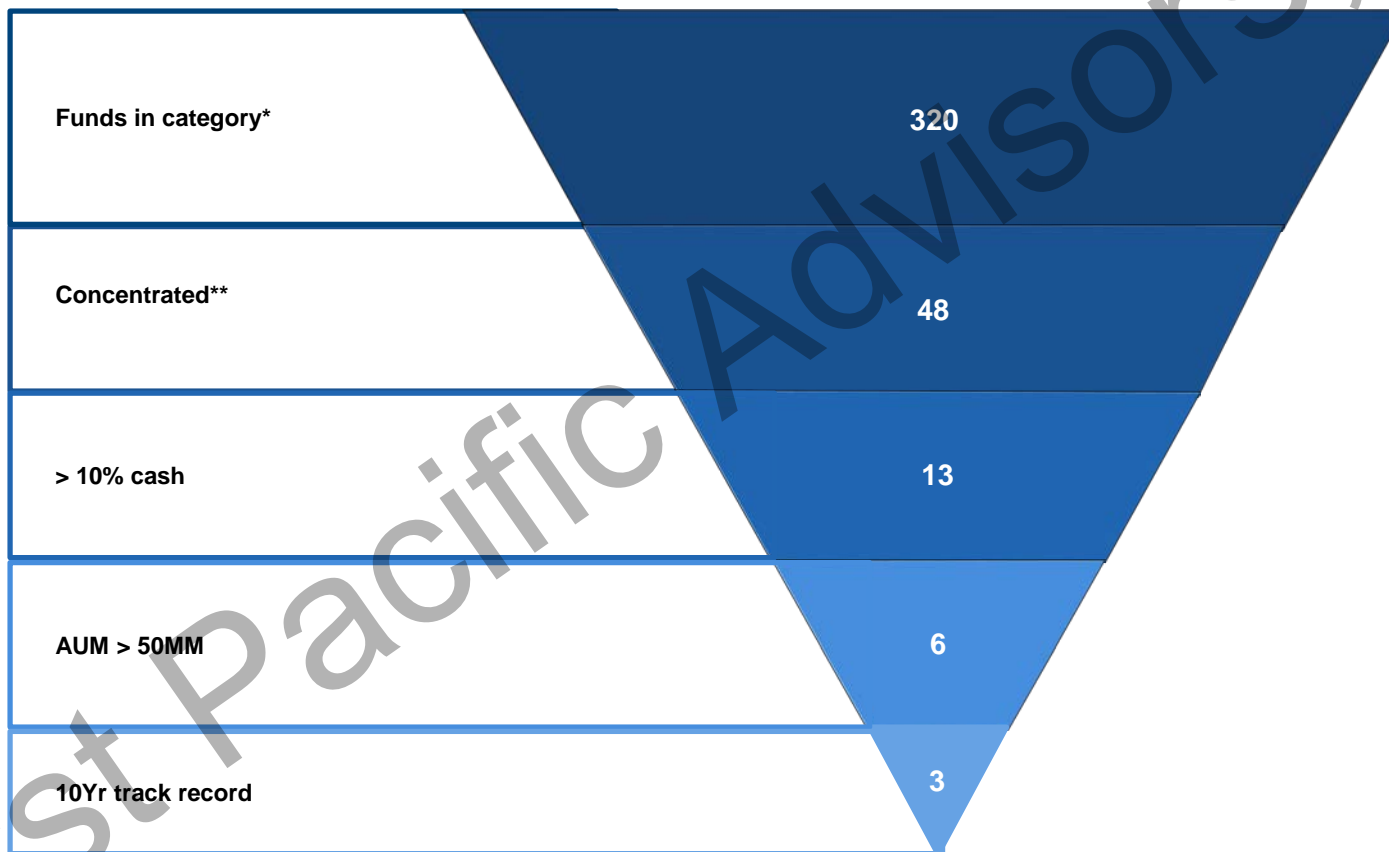
# Fund highlights

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- **Absolute value** – Seek genuine bargains among smaller companies and hold cash when opportunities are scarce
- **Benchmark indifferent** – True active management, do not follow a benchmark to construct the portfolio
- **Bottom-up** – Select and value companies based on fundamentals. Focus on buying market leading companies with a history of profitability and strong balance sheets
- **Downside focused** – Seek to avoid low quality and high leverage. Buy only when we see a compelling risk/reward – do not let low quality businesses age in the portfolio
- **Research-based** – We perform deep due diligence and we do that not only prior to purchase but throughout the life of the investment
- **Concentrated** – Focus on most compelling ideas
- **Shareholder aligned approach** – Team members invest alongside clients

# The few true peers

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\* Morningstar Institutional Categories: SMID Value, SMID Core, SMID Growth, Mid Core, Mid Core Value, Mid Core Growth.

\*\* Concentrated refers to funds that have 40 or less long equity holdings.

As of December 31, 2018. Source: Morningstar. Please see important disclosures, including a glossary of terms, at the back of this presentation.

# Agenda

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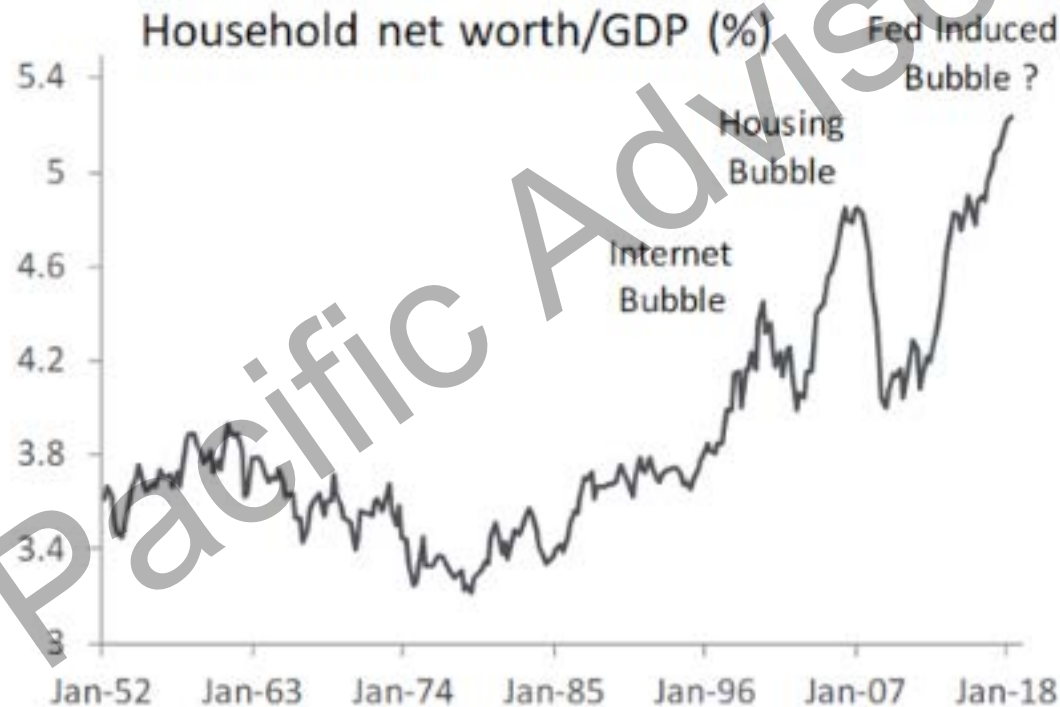
- Thoughts on the market
- Update on portfolio transition
- Investments in two areas: banks and energy
- Why are we increasingly excited about our portfolio?

First Pacific Advisors, LP

# Are We At the End of the Everything Bubble?

The bursting of the prior two bubbles (internet & housing) were preceded by a run-up in the ratio of household net worth to GDP (as shown below)...

**Ultra-easy Money Conditions have Inflated Household Wealth to Historically High Levels**

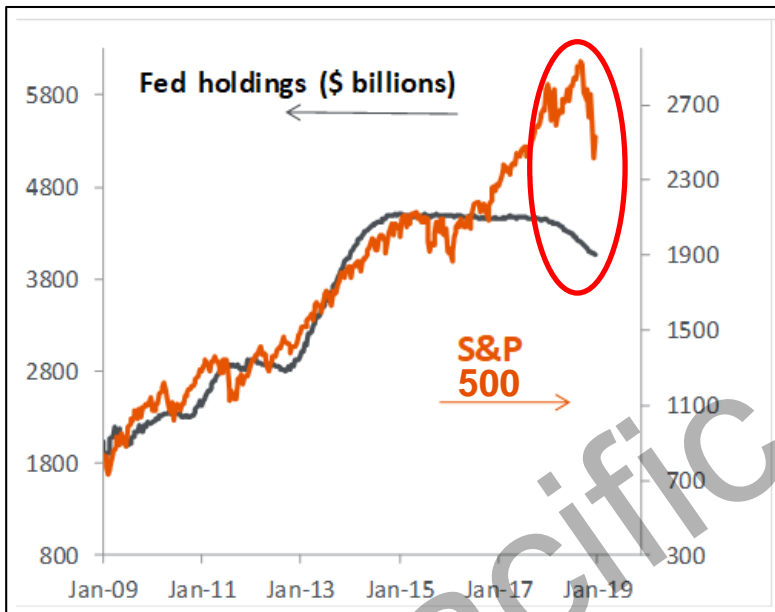


Source: Federal Reserve, Piper Jaffray. Chart data as of September 30<sup>th</sup>, 2018. GDP=Gross Domestic Product.

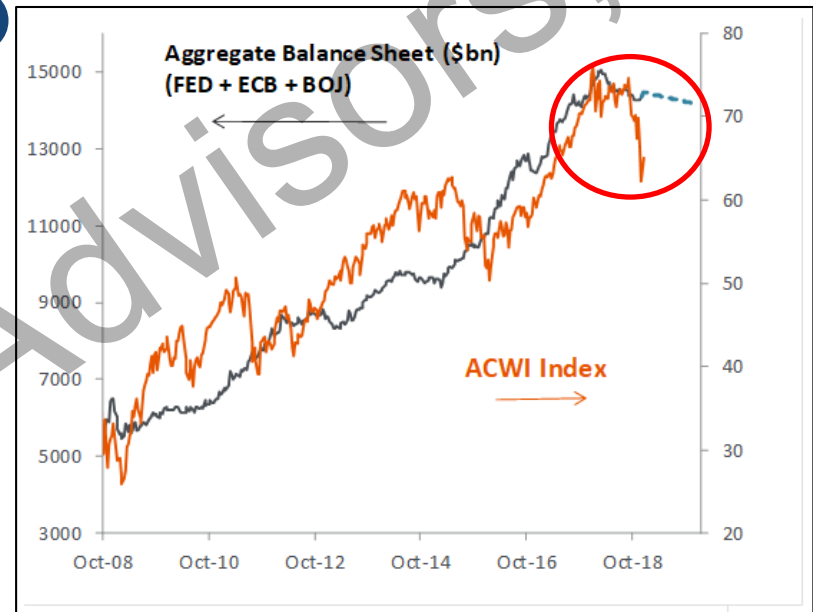
# Are We At the End of the Everything Bubble?

...we believe that the key driver of roaring equity markets was increased central bank liquidity and that has started to reverse...

1



2



Source: Piper Jaffray, data as of January 8, 2019

'Fed' refers to the Federal Reserve Bank; 'ECB' refers to the European Central Bank; 'BOJ' refers to the Bank of Japan; 'S&P 500' refers to the S&P 500 Index.

Please see the end of this presentation for important disclosures and index definitions.

# Are We At the End of the Everything Bubble?

...as central bank liquidity reversed in 2018, nearly all asset classes produced negative returns...

ETF	Asset Class	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
SPY	US Large Caps	-37%	26%	15%	2%	16%	32%	13%	1%	12%	22%	-5%
QQQ	US Nasdaq 100 Stocks	-42%	55%	20%	3%	18%	37%	19%	9%	7%	33%	0%
IWM	US Small Caps	-34%	28%	27%	-4%	17%	39%	5%	-4%	22%	15%	-11%
EEM	EM Stocks	-49%	69%	17%	-19%	19%	-4%	-4%	-16%	11%	37%	-15%
EFA	EAFE Stocks	-41%	27%	8%	-12%	19%	21%	-6%	-1%	1%	25%	-14%
PFF	Preferred Stocks	-24%	38%	14%	-2%	18%	-1%	14%	4%	1%	8%	-5%
HYG	High Yield Bonds	-18%	29%	12%	7%	12%	6%	2%	-5%	13%	6%	-2%
LQD	Investment Grade Bonds	2%	8%	9%	10%	11%	-2%	8%	-1%	6%	7%	-4%
TLT	Long Duration Treasuries	34%	-22%	9%	34%	3%	-13%	27%	-2%	1%	9%	-2%
TIP	TIPS	-1%	9%	6%	13%	6%	-8%	4%	-2%	5%	3%	-1%
AGG	US Aggregate Bonds	8%	-3%	6%	8%	4%	-2%	6%	0%	2%	4%	0%
BIL	US Cash	2%	0%	0%	0%	1%	0%	0%	0%	0%	1%	2%
EMB	EM Bonds (USD)	-2%	15%	11%	8%	17%	-8%	6%	1%	9%	10%	-5%
VNQ	REITs	-37%	30%	28%	9%	18%	2%	30%	2%	9%	5%	-6%
GLD	Gold	5%	24%	29%	10%	7%	-28%	-2%	-11%	8%	13%	-2%
DBC	Commodities	-32%	16%	12%	-3%	4%	-8%	-28%	-28%	19%	5%	-12%
Highest Return		TLT	EEM	GLD	TLT	EEM	IWM	VNQ	QQQ	IWM	EEM	BIL
Lowest Return		EEM	TLT	BIL	EEM	BIL	GLD	DBC	DBC	BIL	BIL	EEM
% of Asset Classes Positive		31%	94%	94%	63%	100%	38%	69%	38%	100%	100%	13%

...on the positive side, cash led the way, generating nearly 2% gains...

Source: Capital IQ, Chart data as of December 31, 2018

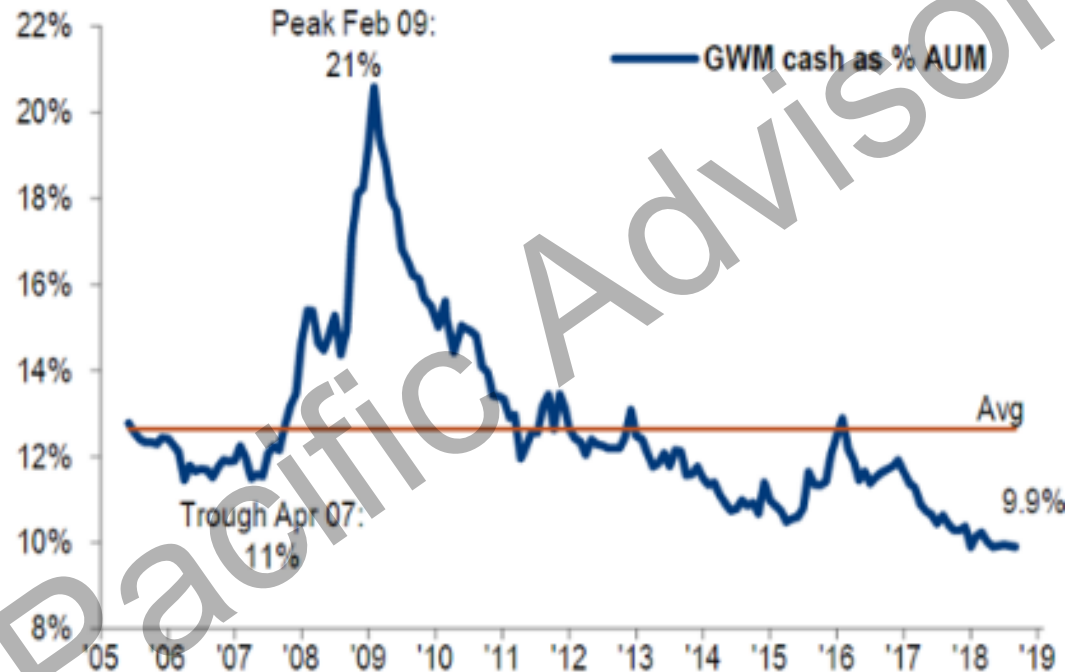
EM=Emerging Market; EAFE=Europe, Australasia and Far East; TIPS=Treasury Inflation Protected Securities; REIT=Real Estate Investment Trust

**Past performance is no guarantee, nor is it indicative, of future results.** Please see the end of this presentation for important disclosures.

# Are We At the End of the Everything Bubble?

...as is typical of these inflection points, many retail investors are under allocated to cash.

**GWIM Cash Allocation**



Heading into the crash, our Fund had nearly 30% cash.

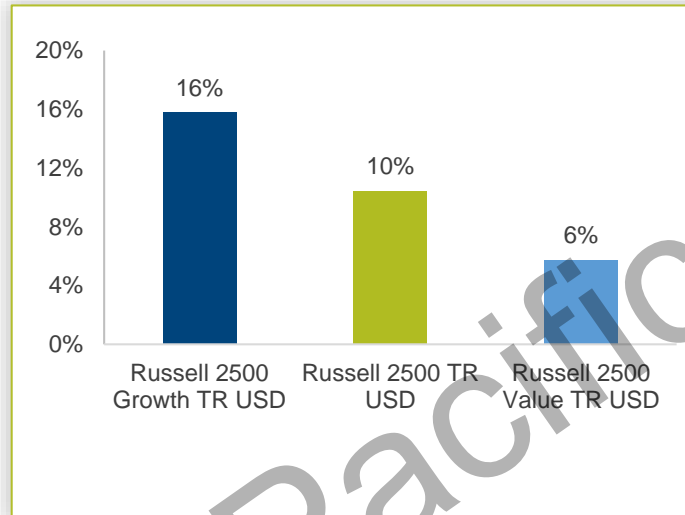
Source: BofA Merrill Lynch Global Investment Strategy, BAC (Bank of America Corp) data; Chart data as of October 18, 2018  
GWIM=Global Wealth and Investment Management; Please see the end of this presentation for important disclosures.



# Are We At the End of the Everything Bubble?

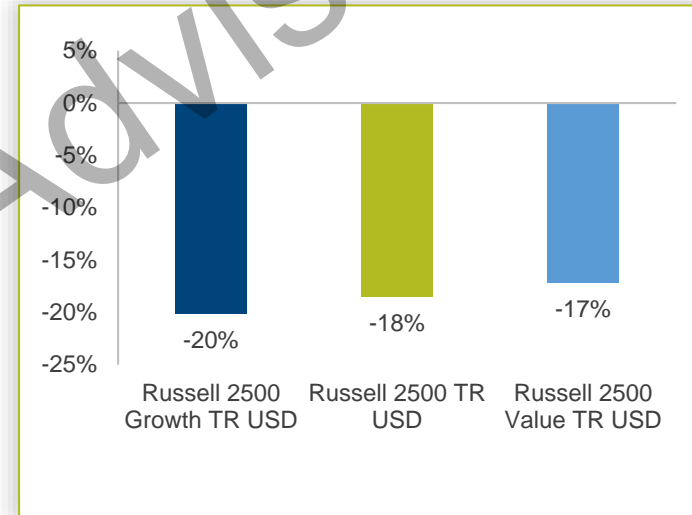
- 1 In our last quarterly letter we shared the below chart for YTD performance of Russell 2500...

YTD performance until the end of Q3'18



- 2 Look how things changed so quickly in just one quarter

Q4'18 performance



Source: FPA

Please see the end of this presentation for important disclosures and index definitions.

# Avoid position inertia

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## Portfolio changes since announcement:

- Assumed sole portfolio manager position at the end of Q3'17
  
- Five quarters later:
  - 10 positions eliminated (net)
    - Sold out of 12
    - Reintroduced 2
  - 11 positions added (net)
    - Initiated 17
    - Subsequently eliminated 6
  - Weights of legacy positions changed
  
- Net exposure:
  - 9/30/17 → Approximately 68%
  - 12/31/18 → Approximately 72%

Net Exposure is a measure of the extent to which a fund's trading book is exposed to market fluctuations.

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# Portfolio Quality Scores – Changes Since October 1, 2017

## Sold At Fair Value Estimate:

- ARRIS International plc (ARRS)
- Cubic Corporation (CUB)
- Federated Investors, Inc. (FII)
- Helmerich & Payne, Inc. (HP)
- Matson, Inc. (MATX)
- Spirit Airlines, Inc. (SAVE)

Average Quality Score* - Oct-1-2017 - Dec-31-2018		
	Average Quality Score*	# of Positions
Eliminated / Bought & Sold During Period	2.2	15
New Purchases / Sold & Rebought - Currently in Portfolio	1.9	13

## Eliminated Due to Thesis Change / Quality Concerns:

- Foot Locker, Inc. (FL)
- Houghton Mifflin Harcourt Co. (HMHC)
- Tenneco Inc. (TEN)
- Veeco Instruments, Inc. (VECO)

## Upgraded Quality:

- Arrow Electronics (ARW)
- Banks
- Carter's, Inc. (CRI)

As of December 31, 2018

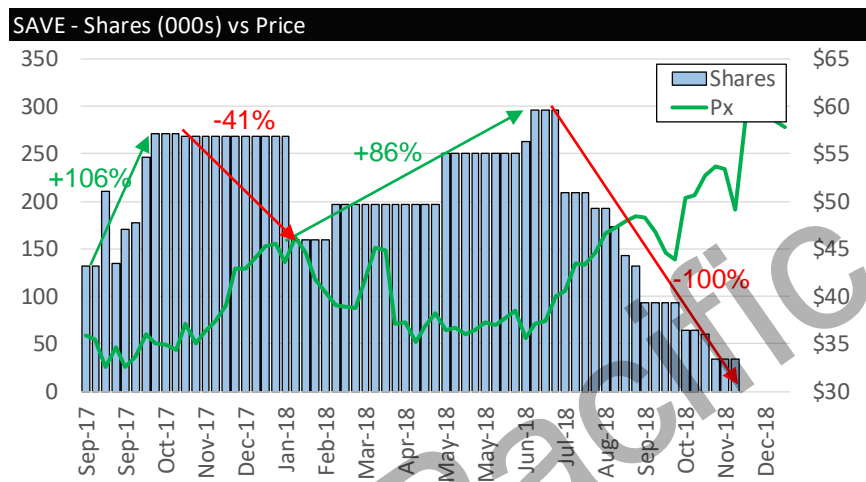
\* Where highest quality = 1 ; lowest quality = 3. In general, a company's quality score reflects our historic investment framework (e.g., market leadership, history of profitability, solid balance sheets, and strong management teams) as well as projected growth rates and industry-related aspects such as competitive strengths and weaknesses. Based on assessment by FPA Capital team.

Portfolio composition will change due to ongoing management of the FPA Capital Fund ("Fund"). References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, FPA, or the distributor. It should not be assumed that future investments will be profitable or will equal the performance or the quality scores of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at [www.fpa.com](http://www.fpa.com). Please refer to the end of the presentation for important disclosures.

# More Nimble Position Management

1

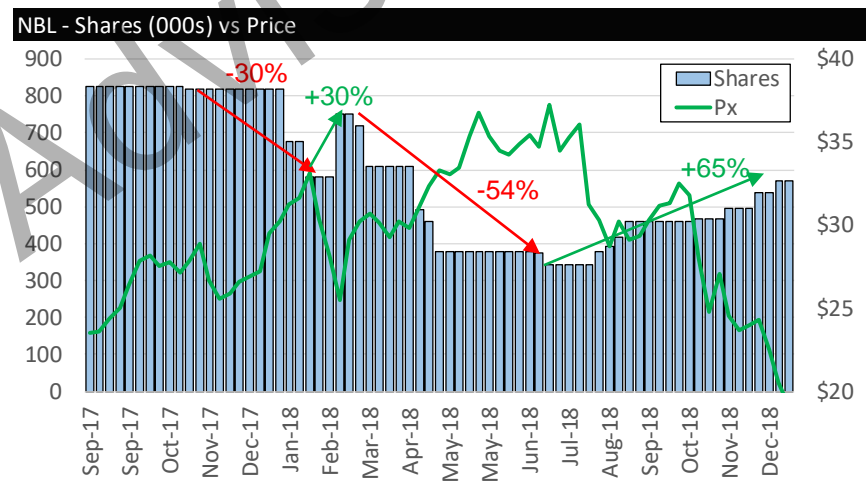
## Selling Positions As They Near Our Exit Price...



Source: CapiQ & FPA Capital Fund Holdings

2

## ...And Actively Managing Our More Volatile Energy Exposure



Source: CapiQ & FPA Capital Fund Holdings

Source for both charts: CapiQ and FPA Capital Fund Holdings; Charts cover the period: August 2017 – December 2018

"Shares" indicates the number of shares held by the Fund at those points in time. 'Px'=Share Price; 'NBL' is Noble Energy, Inc.; 'SAVE' is Spirit Airlines; These case studies are being shown only as an illustration of FPA's investment process and is not a recommendation for any particular type of security, transaction or sector. It should not be assumed that any transaction in the future will be profitable. These case studies are not representative of the overall performance of the Fund as is demonstrated by the Fund's past performance numbers.

**Past performance does not guarantee future results and results may differ over future time periods.** These case studies are being shown only as an example of what the Adviser is seeking to achieve in managing the Fund, but is not necessarily indicative of what has actually been achieved with all of the investments or will be achieved going forward. References to specific securities, transactions or sectors should not be construed as recommendations by the Fund, its Adviser or Distributor. Please refer to the end of the presentation for important disclosures.

# Banks

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## Capitol Federal Financial ("CFFN")

- HoldCo for Capitol Federal Savings Bank – KS, MO
- Total assets of \$9.5bn; excess capital position
- Conservative underwriter, profitable through Financial Crisis
- Sustainable 6%+ total dividend yield
- Modest upside from recent Capital City acquisition

## Investors Bancorp, Inc. ("ISBC")

- HoldCo for Investors Bank – NJ/NY
- Total assets of \$25bn; excess capital position
- Conservative underwriter, only two operating losses going back to 2003
  - Improving interest rate risk posture via growing C&I book
- Recently eliminated regulatory overhang on growth; room for significant operating leverage

## First Hawaiian, Inc. ("FHB")

- HoldCo for First Hawaiian Bank– HI/Guam/Saipan/CA
- Total assets of \$20.7bn
- Conservative underwriter, attractive full cycle returns, market leader (#1 Hawaii deposit share at 36% as of 6/30/2018)<sup>1</sup>
- The State of Hawaii has historically offered an attractive funding advantage
- Opportunity to improve earnings via low risk balance sheet restructuring

Sources: Company Filings as of September 30, 2018 and December 31, 2018; <sup>1</sup>FDIC Deposit Market Share Report, June 30, 2018

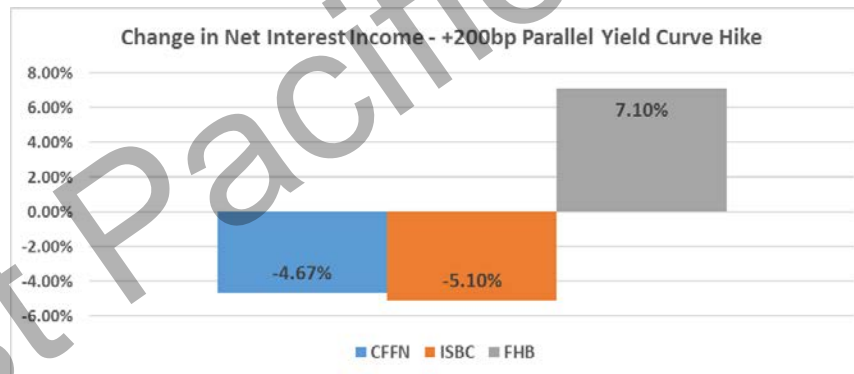
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# Banks

## Attractive Valuations (As of December 31, 2018)

- CFFN
  - 1.3x Price to Tangible Book
  - Price excluding excess capital\* to earnings<sup>1</sup> of 15x
- ISBC
  - 1.0x Price to Tangible Book
  - Price excluding excess capital\* to earnings<sup>1</sup> of 12x
- FHB
  - 2.1x Price to Tangible Book
  - Price to earnings<sup>1</sup> of 11x

## Flexibility to Posture Bank Portfolio Against/Mitigate Rising or Falling Rates



Sources: Valuation Metrics from Company Filings; Net Interest Income Sensitivity Analysis from Company Filings at Q3'2018

<sup>1</sup> Earnings is the annualized Q3 CY2018 earnings per share (CY=Calendar Year) (Source: Company earnings press releases; CFFN on 10/26/2018; ISBC on 10/25/2018; FHB on 10/25/2018);

\* Price excluding excess capital refers to market capitalization less the current amount of Tier One Capital less the amount of Tier One Capital required for a 10% Leverage Ratio. Tier One Capital includes equity capital and disclosed reserves. The Leverage Ratio refers to Tier One Capital divided by Adjusted Average Assets.

# Energy

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- Accounted for more than 60% of our negative performance, yet just under a quarter of the fund's weight
- During the 4Q 2018, the rest of the portfolio's performance was better than the Russell 2500 index (-8.95% vs. -18.49%)<sup>1</sup>
- Why do we still believe that these investments will provide positive performance going forward?
  - Oil inventories are higher than five-year average, but this will likely be temporary
  - Concerns over a global growth slowdown exacerbated the oil price slide to a point below what actual inventory levels would imply. OECD oil inventories are still 177 million barrels lower\* than at the time of the OPEC November 2016 quota cut
  - Favorable set up heading into 2019

\* Source: Cornerstone Analytics, January 7, 2019

OECD = Organization for Economic Co-operation and Development; OPEC = Organization of the Petroleum Exporting Countries

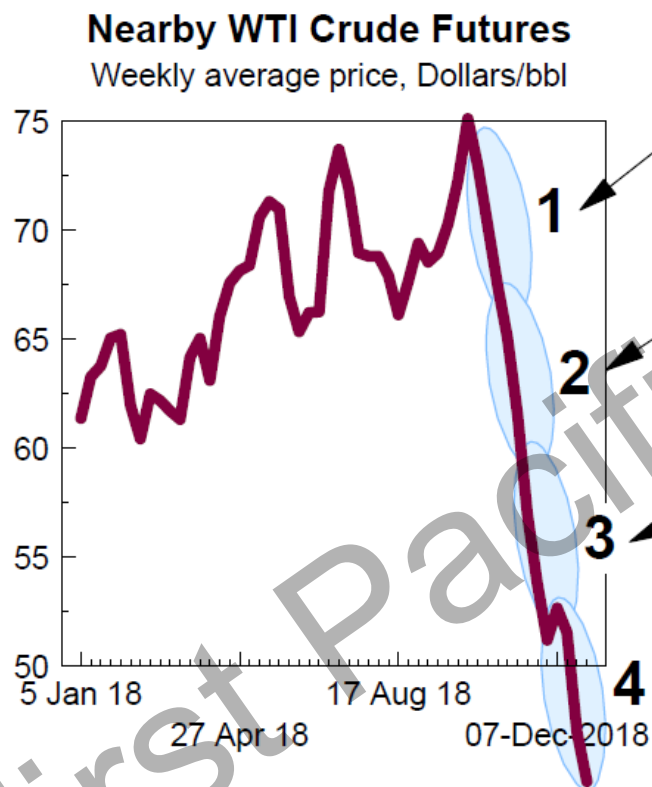
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<sup>1</sup> Comparison to the Russell 2500 index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index. **Past performance is no guarantee, nor is it indicative, of future results.** Please see the important disclosures at the end of this presentation.

# Energy Investments – What Happened?

## Reading Through the Noise in the Oil Market – Part 1

### ■ A Brief Summary of the Oil Market Sell Off



1. Macro-economic concerns about global economic health including the angst about a China "hard landing"

2. Global oil inventories build from OPEC "pushing" extra oil into market on assurances waivers won't be issued to Iran's oil buyers

3. Belief that OPEC will not respond to over-supply by cutting back on its production -- i.e. the fear of a repeat of 2014's *Thanksgiving Day Massacre* -- reinforced by "tweeting" barrage from President Trump

4. "Risk off" trade across various assets (most visibly the equity markets) as concerns resurfaced about the health of the global economy

Source: Cornerstone Analytics, January 10, 2019; 'WTI' = West Texas Intermediate; WTI Crude is describe as a medium crude oil because of its relatively low density. WTI is refined mostly in the Midwest and Gulf Coast regions in the United States; 'bbl' = Barrel.

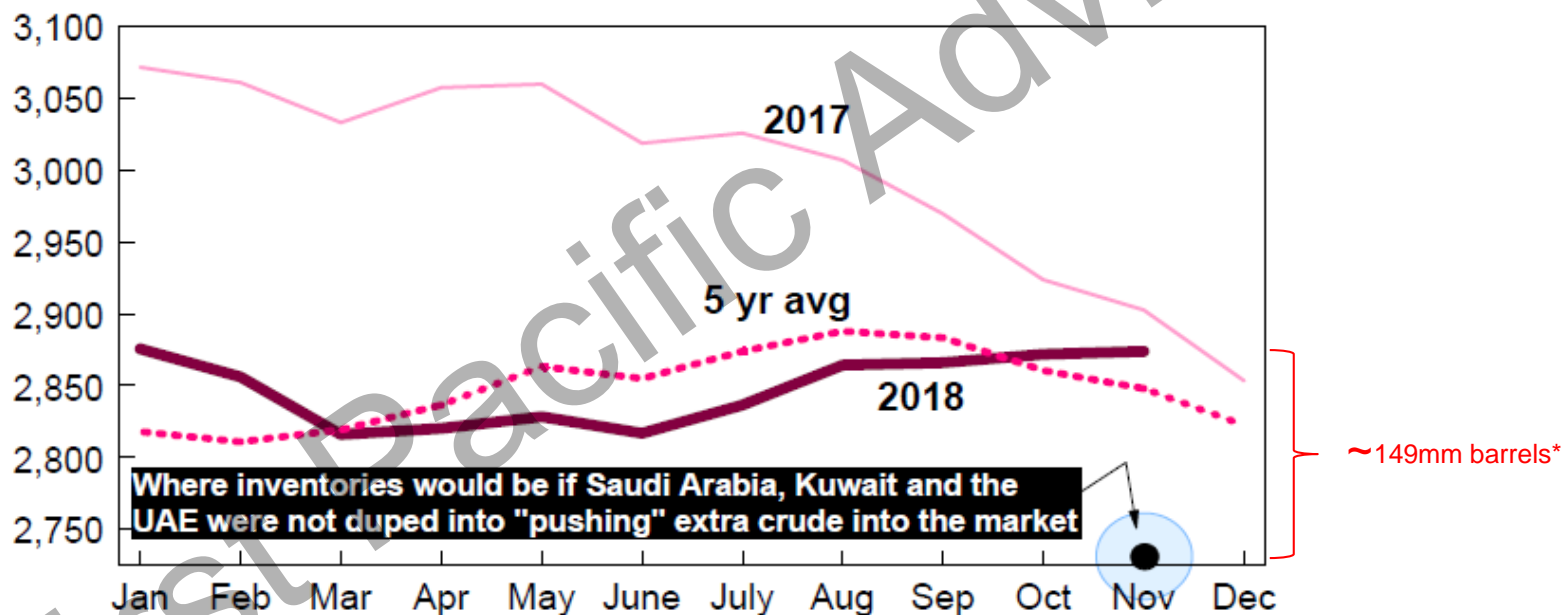


# Energy Investments

## Reading Through the Noise in the Oil Market – Part 1

- Oil prices are negatively correlated to global inventories
- Inventories are roughly 150 million barrels above where they would have been had these producers not stepped up production

**Total OECD Oil Stocks**  
Month ending level, Million barrels



Source: Cornerstone Analytics, January 3, 2019. Data in chart as of January 3, 2019. OECD = Organization for Economic Co-operation and Development, includes 36 member countries around the world.

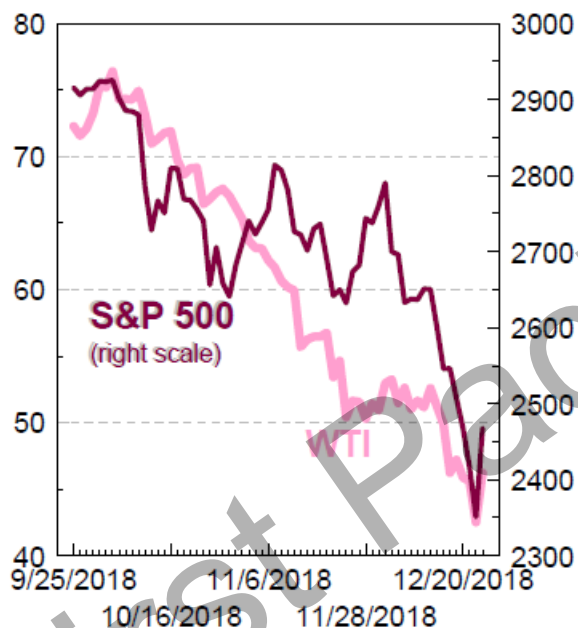
\* Estimate of approx. 149mm barrel oversupply as of November 30, 2018 is Cornerstone Analytics estimate and is based on supply data.

# Energy Investments

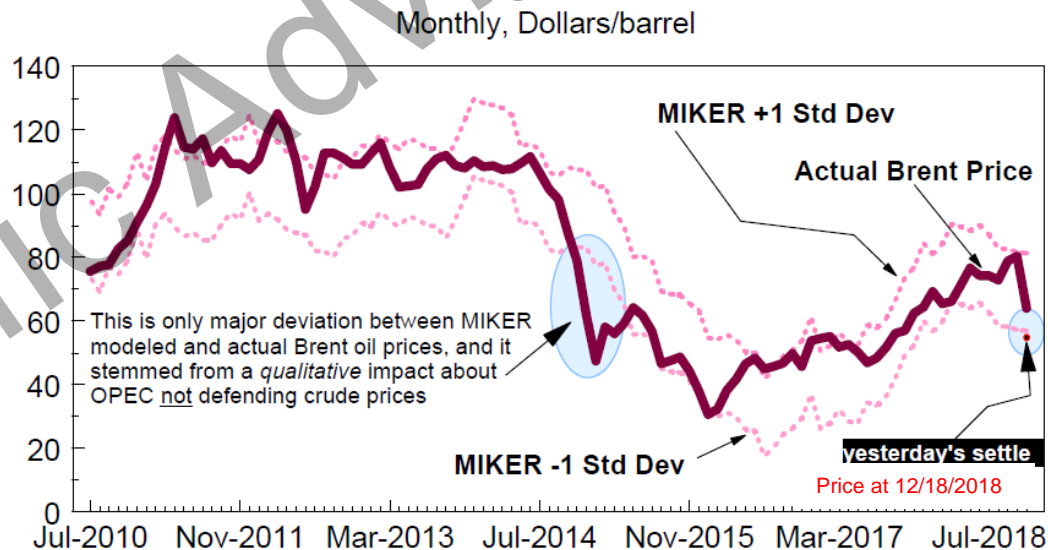
## Reading Through the Noise in the Oil Market – Part 2

- During the recent risk-off drawdown, WTI traded in line with overall equities and in our view traded to a point that is well below what is implied by actual OECD petroleum inventories; energy equities remain below where they were when oil was at \$26/bbl!\* Since the beginning of OPEC quota cuts in November 2016, OECD inventories have declined by 177 million barrels!\*\*

WTI and the S&P 500, Daily Settle



MIKER Model Value Range versus Actual Brent Price



Source: (Left Chart) Cornerstone Analytics, December 27, 2018. (Right Chart) Cornerstone Analytics, December 19, 2018.

\* Oil was last at approximately \$26/barrel on 2/11/2016; Source: U.S. Energy Information Agency

MIKER = Multinational Inventory Kurtosis Evaluation Regression; MIKER Model Value Range refers to the model's estimate on Brent oil price for a given level of inventory

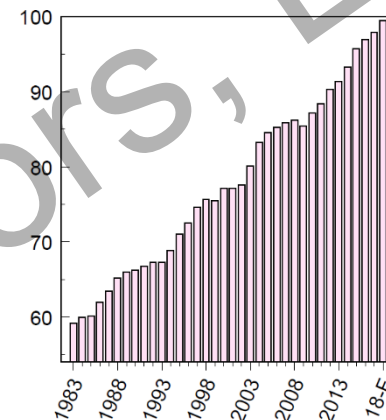
# Energy Investments

## Reading Through the Noise in the Oil Market – Part 3

### ■ Favorable Set Up Heading into 2019

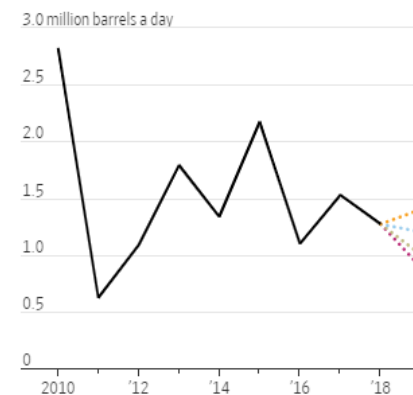
- OPEC+\* taking 1.2 million barrels per day off the market in January for at least six months as they target lower inventory levels (and higher prices). Canada is also set to temporarily cut 325k barrels per day starting in January
- Demand fears are real, but we believe trailing data still looks favorable:
  - U.S. petroleum stocks fell by 42 million barrels from mid-October through mid-December
  - China crude imports have surprised to the upside (data through November)
- Global crude consumption has contracted in just two periods since the early 1980s, but otherwise the trend has been up and to the right (driven by emerging market demand)
- Even the most bearish forecasts are still calling for meaningful consumption growth. With OPEC+ cuts of 1.2mm barrels per day, should demand contract by say 500k barrels per day, the world would still need production growth of 700k barrels per day to hold inventories flat when accounting for OPEC cuts. We believe production outside of OPEC would likely decline again with prices under \$40 barrel

Global Oil Demand  
Million barrels/day



Global oil demand growth, actual and forecast

■ IEA ■ RBC Capital Markets  
■ Energy Aspects ■ JBC Energy

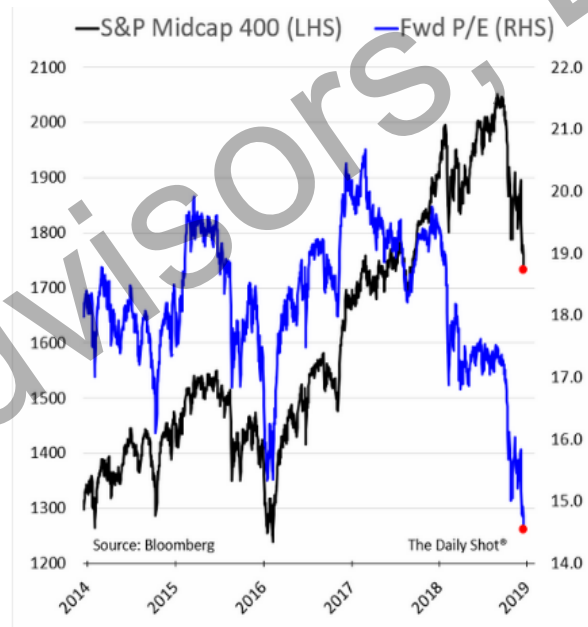
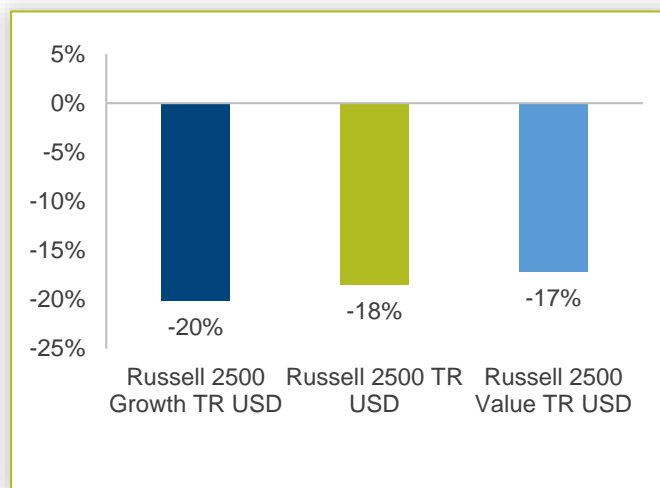


Sources: International Energy Agency (2008-2018), the institutions (2019)

OPEC+ refers to OPEC plus Russia, as well as smaller producers including Azerbaijan, Bahrain, Brunei, Equatorial Guinea, Kazakhstan, Malaysia, Mexico, Oman, S. Sudan, Sudan  
Source: U.S. Inventory Data from Cornerstone Analytics, December 20, 2018. China Import Data from Cornerstone Analytics, January 2, 2019. (Top Chart) Cornerstone Analytics, July 18, 2018. (Bottom Chart) Wall Street Journal, Oil Demand Flashes Red, Sending Crude Prices Even Lower. December 20, 2018.

# We are increasingly excited about our portfolio

- 1 ■ The dislocation we have been talking about is finally here      2 ■ Multiples are more attractive



- 3 ■ Our portfolio is cheap\*

	FPA Capital	Russell 2500
Number of holdings	24	2513
Weighted average market cap (billions)	\$3.8	\$4.5
Median market cap (billions)	\$2.9	\$1.0
Price to earnings (12 months trailing)	12.9x	22.5x
Price to book	1.4x	2.1x
Return on Equity	9.7%	12.9%
Dividend Yield	2.0%	1.8%
Cash	28.5%	0.0%

## Summary:

- Our Fund was substantially over indexed to cash prior to this dislocation
- Adding selectively both new investments and to existing positions where we believe stocks are already pricing in recessionary scenarios
- We have completed portfolio transition
- Appropriate to judge performance over a cycle

All information is as of 12/31/18. 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. Current month-end performance data, which may be lower or higher than the performance data quoted, may be obtained at [www.fpa.com](http://www.fpa.com) or by calling toll-free, 1-800-982-4372. For total returns current to the most recent quarter end, please see page 24. Portfolio composition will change due to ongoing management of the Fund. Comparison to Russell 2500 Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the end of the presentation for important disclosures and definitions of key terms. \* "Cheap" refers to on a P/E and P/B absolute and relative basis.



Q & A

First Pacific Advisors, LP



## Appendix

First Pacific Advisors, LP

# Holdings as of December 31, 2018

<b>INFORMATION TECHNOLOGY</b>	<b>19.4%</b>
Ambarella	2.2%
Arrow Electronics	1.2%
Avnet	4.8%
Cision	1.4%
InterDigital	4.7%
Western Digital	5.1%
<b>CONSUMER DISCRETIONARY</b>	<b>6.2%</b>
Aaron's	2.6%
Carter	1.6%
Dana	0.9%
Gentex	1.1%
<b>ENERGY</b>	<b>23.6%</b>
Cimarex Energy	4.8%
Franks	3.2%
Noble Energy	4.2%
Patterson-UTI Energy	3.9%
Rowan Companies	3.0%
SM Energy	4.5%

<b>INDUSTRIALS</b>	<b>8.4%</b>
AGCO	3.8%
Allegiant Travel	4.6%
<b>FINANCIALS</b>	<b>7.7%</b>
Capitol Federal Financial	3.4%
First Hawaiian	1.3%
Investors Bancorp	3.0%
<b>Materials</b>	<b>2.1%</b>
Graphic Packaging	2.1%
<b>UNDISCLOSED</b>	<b>4.1%</b>
Undisclosed	4.1%
<b>CASH</b>	<b>28.5%</b>
<b>TOTAL</b>	<b>100.0%</b>

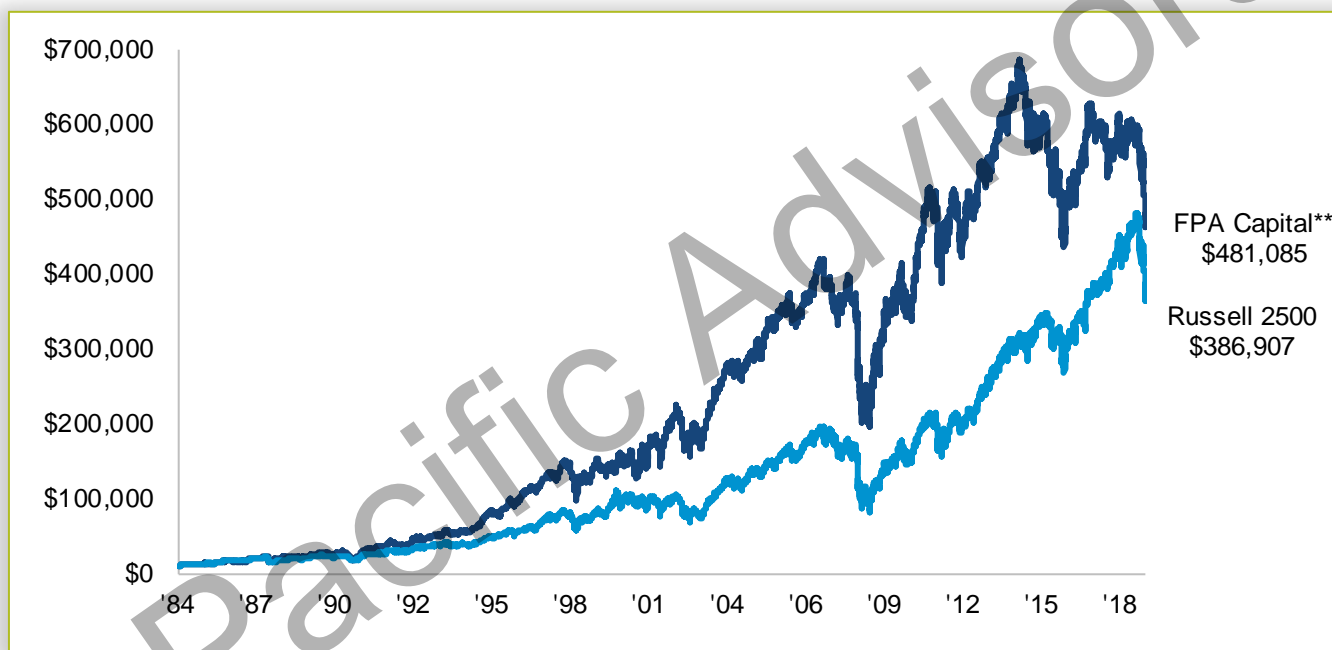
The percentage weights shown in the table are the market value of each holding divided by the total net assets of the Fund as of December 31, 2018. Sector classification scheme reflects GICS (Global Industry Classification Standard). Totals may not add up due to rounding. Portfolio composition will change due to ongoing management of the Fund. **Please refer to the end of the presentation for important disclosures.**

# Performance – net of fees

## Trailing Performance (%)

As of Date: 12/31/18	Since 8/1/84*	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTR
<b>FPA Capital</b>	11.94	6.81	4.12	7.39	-4.72	-1.33	-17.61	-17.61	-18.65
<b>Russell 2500</b>	11.21	8.52	8.23	13.15	5.15	7.32	-10.00	-10.00	-18.49

Periods greater than one year are annualized. Fund performance is net of all fees and expenses. See disclosures at the bottom of the page.



Source: Morningstar Direct.

\* Fund Inception: July 11, 1984. Mr. Ahitov was named sole portfolio manager effective October 1, 2017; for full portfolio manager history, please see appendix disclosure. ITD performance is presented from August 1, 1984 as the illustrative benchmark performance was not available based on Fund Inception. Returns shown assume reinvestment of distributions and do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares, which would lower these figures. Comparison to Russell 2500 Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index. **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. Current month-end performance data, which may be higher or lower than the performance data quoted, may be obtained at [www.fpa.com](http://www.fpa.com) or by calling toll-free, 1-800-982-4372. The Fund's expense ratio as of the most recent prospectus is 0.83%.** \*\* Total return calculations are based on a \$10,000 investment made in the Fund since 8/1/1984 and include reinvestment of capital gains and dividends. The chart is not intended to imply any future performance of the Fund. **Please refer to the end of the presentation for important disclosures.**



# Dedicated team

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## Arik Ahitov

Partner, Portfolio Manager

- FPA
- Shamrock Capital Advisors
- Board of Directors of Coinstar, Inc.
- Pre-MBA: Consulting and Investment Banking
- UCLA (MBA)
- Northwestern University (B.A.)

## Chris Moreno, CFA

Vice President, Research Analyst

- FPA
- Tactica Capital
- C12 Capital
- Barclays Capital
- Citigroup
- Deloitte Consulting
- Harvey Mudd College (B.S.)

## Sean Pompa, CFA

Vice President, Research Analyst

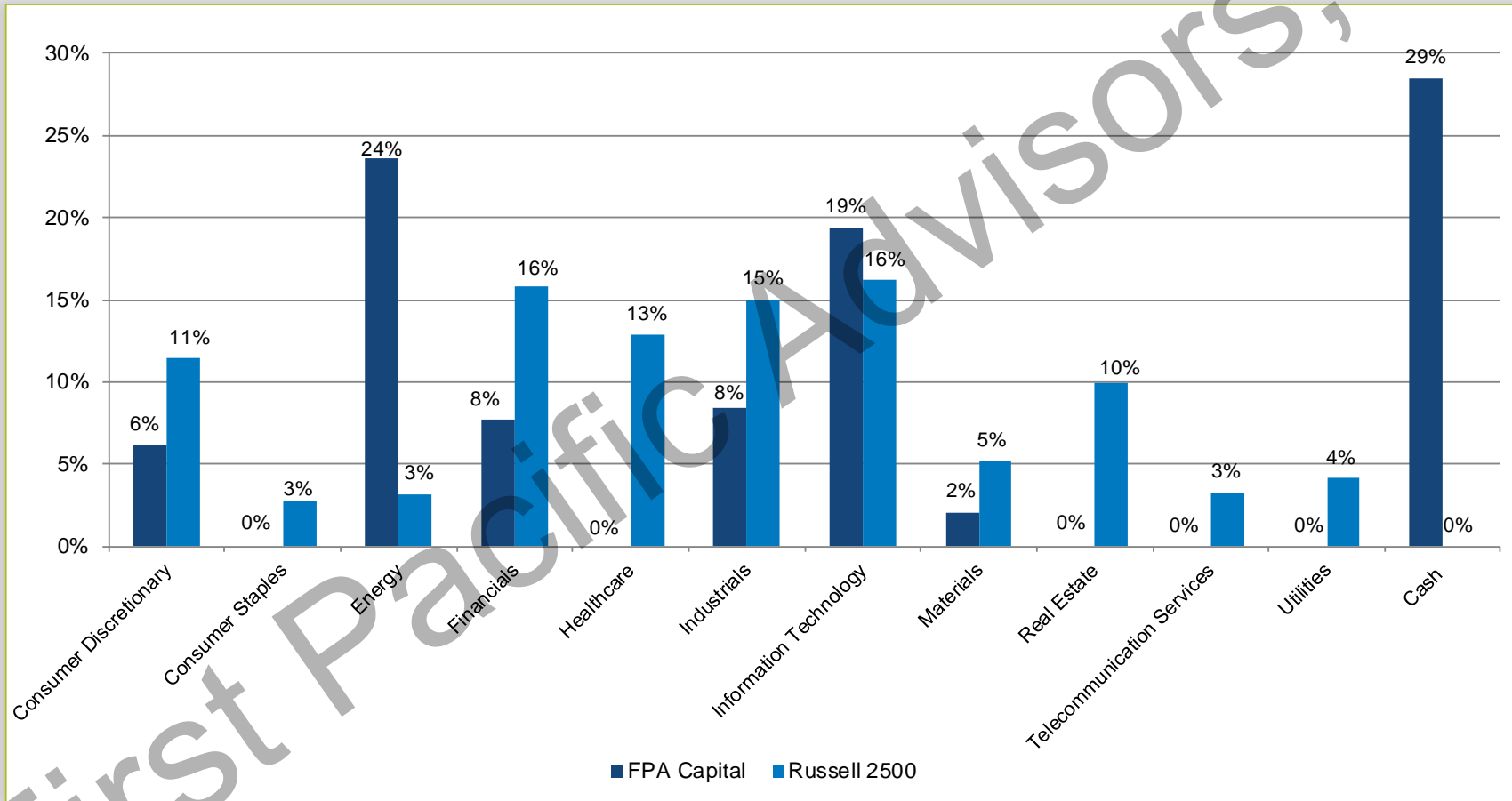
- FPA
- OCC
- UCLA (MBA)
- West Virginia University (B.A.)

## Intern

- FPA

# Our portfolio makeup is very different than Russell 2500

Sector Weightings as of December 31, 2018



Source: Capital IQ. Sector classification scheme reflects GICS (Global Industry Classification Standard). Portfolio composition will change due to ongoing management of the Fund. Comparison to Russell 2500 Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. **Please refer to the end of the presentation for important disclosures.**

# Security changes in portfolio (net) – QTD

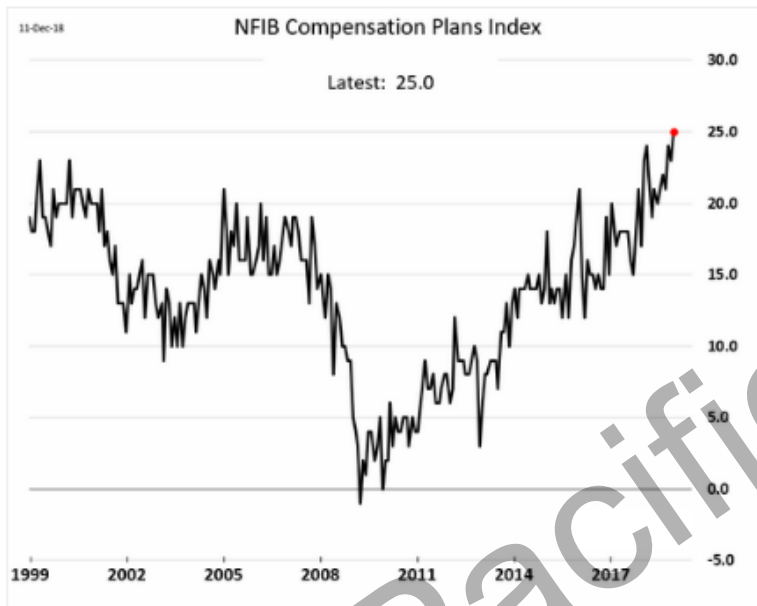
From September 30, 2018 to December 31, 2018

New Securities	Added to Existing Securities	Reduced Securities	Eliminated Securities
First Hawaiian	AGCO	Arron's	Arris Group
Undisclosed (2)	Ambarella	Allegiant Travel	Spirit Airlines
	Avnet	Arrow Electronics	Undisclosed (2)
	Capitol Federal Financial	Cimarex Energy	
	Carter's	Dana	
	Cision	Gentex	
	Franks	Graphic Packaging Holding	
	Investor Bancorp	Interdigital	
	Nobel Energy		
	Patterson-UTI Energy		
	Rowan Companies		
	SM Energy Company		
	Western Digital		
	Undisclosed		

Please refer to the end of the presentation for important disclosures. 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 manager, FPA, 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.fpa.com](http://www.fpa.com).

# Is Wage Pressure the Next Leg Down?

The percentage of businesses planning to boost compensation is at the highest level in over two decades...



...and historically jumps in compensation have tended to pressure margins, leading to negative earnings revisions

Source: WSJ Daily Shot Email for both charts. Data as of December 11, 2018 (left) and December 13, 2018 (right).

# Expecting Outperformance From Tech Distributors

Technology Distributors (ARW & AVT\*) Have Tended to Outperform the Semiconductor Index During Semiconductor Down Cycles...

## Technology Distributors Performance Over Different Cycles

Cycle Start	Aug-00	Sep-01	Jul-04	Jul-05	Jul-06	Feb-08	Jul-08	Apr-09	Mar-10	Feb-12	Jul-14	Jun-16	Jun-18
Cycle End	Aug-01	Jun-04	Jun-05	Jun-06	Jan-08	Jun-08	Mar-09	Feb-10	Jan-12	Jun-14	May-16	May-18	Dec-18
Semi Cycle	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down
<b>Absolute</b>													
Arrow	-26%	0%	1%	19%	6%	-10%	-38%	48%	46%	46%	7%	15%	-7%
Avnet	-20%	-6%	-1%	-11%	78%	-23%	-36%	58%	26%	27%	-7%	-7%	-5%
<b>Average</b>	<b>-23%</b>	<b>-3%</b>	<b>0%</b>	<b>4%</b>	<b>42%</b>	<b>-17%</b>	<b>-37%</b>	<b>53%</b>	<b>36%</b>	<b>37%</b>	<b>0%</b>	<b>4%</b>	<b>-6%</b>
<b>Relative</b>													
ARW vs SOX	25%	14%	15%	13%	25%	-13%	-1%	1%	26%	-9%	-3%	-82%	9%
AVT vs SOX	32%	8%	13%	-17%	97%	-26%	1%	11%	6%	-28%	-17%	-104%	11%
<b>Avg vs SOX</b>	<b>28%</b>	<b>11%</b>	<b>14%</b>	<b>-2%</b>	<b>61%</b>	<b>-19%</b>	<b>0%</b>	<b>6%</b>	<b>16%</b>	<b>-19%</b>	<b>-10%</b>	<b>-93%</b>	<b>10%</b>
<b>PHLX Semiconductor (SOX)</b>	<b>-51%</b>	<b>-14%</b>	<b>-14%</b>	<b>5%</b>	<b>-19%</b>	<b>3%</b>	<b>-37%</b>	<b>47%</b>	<b>21%</b>	<b>56%</b>	<b>10%</b>	<b>97%</b>	<b>-16%</b>

Source: World Semiconductor Trade Statistics, CapIQ & FPA ests

...And given the relatively tame performance during the most recent upcycle we think there could be room for substantial outperformance as the current down cycle (only in month six) continues

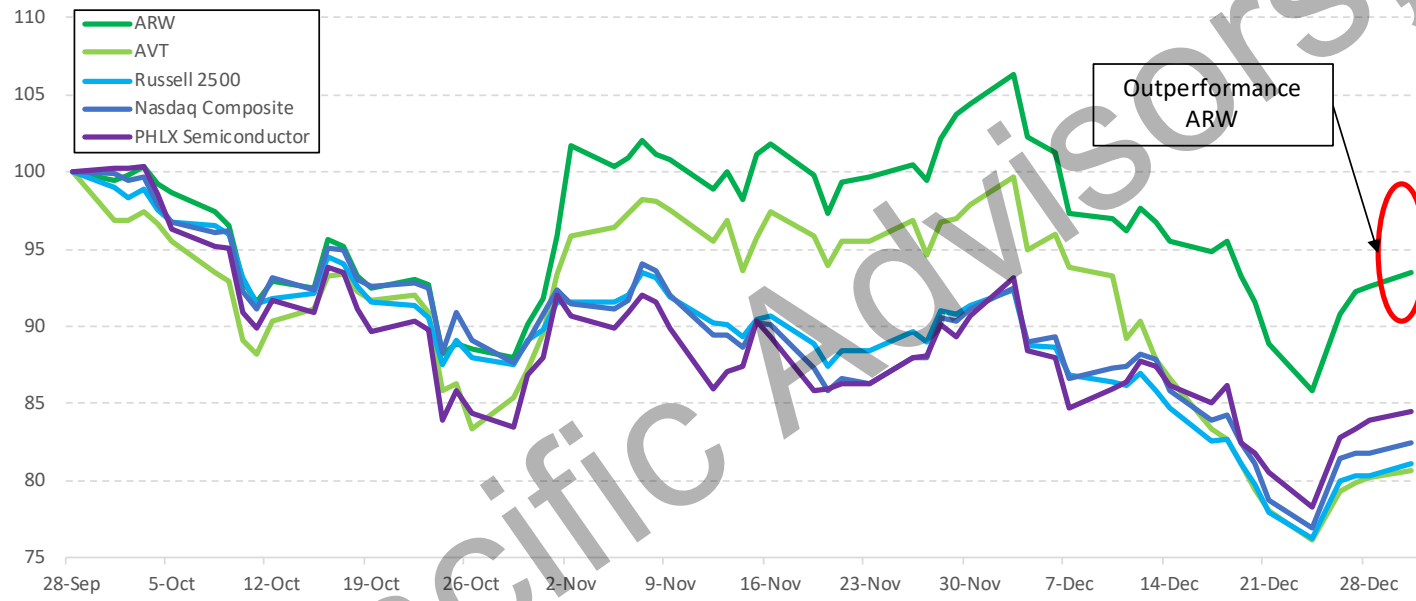
\* ARW=Arrow Electronics, Inc.; AVT = Avnet, Inc.

**Past performance is no guarantee, nor is it indicative, of future results.** 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 manager, FPA, 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 Fund's portfolio holdings as of the most recent quarter-end may be obtained at [www.fpa.com](http://www.fpa.com). Comparison to an index is for illustrative purposes only. Index returns do not reflect transactions costs, investment management fees or other commissions, fees and expenses that would reduce performance for an investor. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

# During 4Q, We Saw Outperformance From Arrow (ARW)

Arrow Electronics, already delivered strong outperformance during 4Q...

## Performance Comparison of Technology Distributors to Relevant Indices during 4Q 2018



Source: CapIQ; Russell 2500 - The Russell 2500 Index is a broad index, featuring 2,500 stocks that cover the small- and mid-cap market capitalization; Nasdaq Composite Index - The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange; PHLX Semiconductor - The Philadelphia Semiconductor Index (SOX) is a capitalization-weighted index composed of 30 semiconductor companies.

...and we believe Avnet (AVT) is well positioned to outperform in the coming quarters as they use their strong balance sheet & free cash flow to repurchase shares at attractive prices

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# Important Disclosures

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These slides are intended as supplemental material to the **Second Half 2018 FPA Capital Fund** audio presentation that is posted on our website [fpa.com](http://fpa.com).

**This presentation is for informational and discussion purposes only.** The statements contained herein reflect the opinions and views of the portfolio manager as of the date of the publication. 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 does not represent all of the securities purchased, sold or recommended for the Fund, and you should not assume that investments in the securities mentioned were or will be profitable. The information provided does not constitute, and should not be construed as, an offer or solicitation with respect to any securities, products or services discussed. 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.

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Portfolio composition will change due to ongoing management of the Fund. 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. 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.fpa.com](http://www.fpa.com).

**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 the Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at [www.fpa.com](http://www.fpa.com), by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.**

**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 0.83%. Current month-end performance, which may be higher or lower than the performance data quoted, may be obtained at [www.fpa.com](http://www.fpa.com) or by calling toll-free, 1-800-982-4372.**

Mr. Ahitov was named sole portfolio manager effective October 1, 2017. Dennis Bryan and Arik Ahitov had been co-portfolio managers since November 2007 and February 2014, respectively, and managed the Fund in a manner that is substantially similar to the prior portfolio manager, Robert Rodriguez. Mr. Rodriguez ceased serving as the Fund's portfolio manager effective December 2010.

# Important Disclosures

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Investments in mutual funds carry risks and investors may lose principal value. Capital 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; this may be enhanced when investing in emerging markets. Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks.

Foreign investments, especially those of companies in emerging markets, can be riskier, less liquid, harder to value, and more volatile than investments in the United States. Adverse political and economic developments or changes in the value of foreign currency can make it more difficult for the Fund to value the securities. Differences in tax and accounting standards, difficulties in obtaining information about foreign companies, restrictions on receiving investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations, can all add to the risk and volatility of foreign investments.

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

The information in this publication has been developed internally and/or obtained from sources we believe to be reliable; however, FPA does not guarantee the accuracy or completeness of such information and is subject to change without notice.

## Index Definitions

Comparison to any index is for illustrative purposes only and should not be relied upon as a fully accurate measure of comparison. The Fund will be less diversified than the indices noted herein, and may hold non-index securities or securities that are not comparable to those contained in an index. Indices will hold positions that are not within the Fund's investment strategy. Indices are unmanaged and do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

The Russell 2500 Index consists of the 2,500 stocks that cover the small and mid cap market capitalizations. The Russell 2500 is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities.

The Russell 2500 Growth Index measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 companies with higher growth earning potential as defined by Russell's leading style methodology.

The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies that are considered more value oriented relative to the overall market as defined by Russell's leading style methodology.

The S&P 500 Index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

The S&P MidCap 400 serves as a barometer for the U.S. mid-cap equities sector and is the most widely followed mid-cap index in existence.



# Important Disclosures

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## Other Definitions

Price/Earnings ratio (P/E) is the price of a stock divided by its earnings per share. Percentages are based on the absolute number of shares. P/E ex-Neg EPS is Price/Earnings ex negative earnings per share.

Price-to-Book (P/BV) is 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.

The Morningstar Category™ classifications were introduced in 1996 to help investors make meaningful comparisons between mutual funds.

SMID Value portfolios invest primarily in small and mid-size companies. All funds in this category focus on the purchase of stocks that are less expensive or growing more slowly than the overall market. This category captures portfolios which have a size score indicative of small or mid capitalization and a low style score, indicative of a value approach. Key strategies of SMID portfolios include but are not limited to, investment in smaller mid cap companies, investment in small cap and smaller mid cap companies, and movement between small and mid capitalizations.

SMID Core portfolios have a flexible investing strategy that allows for pursuit of investments in small and mid capitalization ranges. The style score of portfolios in this group falls in the middle of the spectrum, either because of a focus on both growth and value investing or because they select stocks from a variety of styles. Key strategies of SMID portfolios include but are not limited to, investment in smaller mid cap companies, investment in small cap and smaller mid cap companies, and movement between small and mid capitalizations.

SMID Growth portfolios focus on investment in small and mid-size companies. Investments in this category focus on returns through capital appreciation and favor companies who are expected to expand at an above average rate relative to the market. This category contains portfolios with size scores that fall between large and micro capitalization and style score that fall in the highest range, indicating a SMID Cap Growth approach. Key strategies of SMID portfolios include but are not limited to, investment in smaller mid cap companies, investment in small cap and smaller mid cap companies, and movement between small and mid capitalizations.

Mid Core portfolios provide middle-of-the-road exposure to the US equity market. These portfolios may hold mid-cap stocks specifically or a wider array of large to small stocks, leading to a mid-range size score. Similarly, the style scores of funds in this group are roughly equal to the average for funds in the mid-cap range, either because they seek stocks offering both growth potential and low valuations or because they choose stocks from a variety of style ranges.

Mid Core Value portfolios pursue a classic value-style approach as reflected by their style scores, which generally land in the middle of the value range. They may choose some stocks that are currently out of favor in the market, though management sees the potential for a turnaround. Alternatively, they may focus on achieving returns through consistent income.

Mid Core Growth portfolios exemplify classic growth characteristics. Their style scores are directly in the middle of the growth spectrum as these managers seek solid opportunities for capital appreciation with valuations that are somewhat lower than high growth members. Most likely, these portfolios are exposed primarily to mid-cap firms though it is possible they could invest in stocks from a variety of cap ranges.

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