



Form ADV Part 2A

**First Pacific Advisors, LLC**

11400 West Olympic Boulevard, Suite 1200  
Los Angeles, CA 90064-1550

Telephone: (800) 982-4372  
[www.fpafunds.com](http://www.fpafunds.com)

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This brochure provides information about the qualifications and business practices of First Pacific Advisors, LLC ("Adviser" or "FPA"). If you have any questions about the contents of this brochure, please contact us at (800) 982-4372. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about the Adviser also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

FPA is an investment adviser registered with the SEC. Registration of an investment adviser does not imply any level of skill or training.

This brochure is an annual update, and does not contain any material changes from the brochure dated April 1, 2013.

In the past, FPA has offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, FPA will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year (currently December 31). FPA will further provide other ongoing disclosure information about material changes as required by applicable law or as FPA otherwise determines to be necessary.

FPA will further provide you with a new Brochure as necessary based on changes or new information at any time, upon request.

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## **ITEM 4      ADVISORY BUSINESS**

FPA is a Delaware limited liability company that was formed in July 2004. Together with its predecessor organizations, FPA has been in the investment advisory business since 1954. FPA maintains its principal office at 11400 West Olympic Boulevard, Suite 1200, Los Angeles, California 90064-1550. The owners of the Adviser are the Managing Partners; J. Richard Atwood, Robert L. Rodriguez, and Steven T. Romick, and the Partners, Thomas H. Atteberry, Dennis M. Bryan, Eric S. Ende, Steven R. Geist, Mark Landecker and Brian A. Selmo. Currently, the personnel of FPA consists of 29 persons engaged full time in portfolio management or investment research, 3 persons engaged full time in trading and 42 persons engaged full time in, administrative, financial or clerical activities.

FPA provides investment advisory services for a variety of different clients. These include investment companies, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, hedge funds and private investment companies, and state and municipal government entities. As of December 31, 2013, the Adviser managed the assets of approximately \$28.3 billion for investment companies, institutional accounts and private investment funds, all on a discretionary basis.

### **Discretionary Investment Services**

FPA provides continuing supervision of each client's investment portfolio. The services provided by FPA are on a discretionary basis. As a result, FPA has full discretion to determine, consistent with clients' investment objectives and restrictions, which securities and the total amount of securities that are to be bought or sold for clients' accounts. FPA may buy and sell both domestic U.S. and foreign securities that include, but are not limited to: common and preferred stocks; 144A, private placements and other restricted securities; convertible stocks and bonds; options; warrants; rights; commercial paper; certificates of deposit; futures contracts; interests in partnerships investing in real estate, oil and gas interests and securities; mortgage pass-through securities; stripped mortgage securities; Z-bonds; inverse floaters; repurchase agreements; U.S. Government securities; and corporate, municipal and government bonds, notes and bills. The Adviser provides management services primarily in a value investment style for the following investment products: Small/Mid-Cap Absolute Value, Small/Mid-Cap Quality, Contrarian Value, Absolute Fixed Income, International Value and Global Value. FPA's discretionary investment authority may be limited by conditions imposed by clients in their stated investment objectives or guidelines, and mutually agreed to by FPA.

FPA provides discretionary investment management services to:

#### Registered Investment Companies (collectively "FPA Funds")

FPA manages Source Capital, Inc. ("Source"), a publicly traded, diversified, closed-end investment company; FPA Paramount Fund, Inc. ("Paramount"), a non-diversified, open-end investment company; FPA Perennial Fund, Inc. ("Perennial"), a diversified, open-end investment company; FPA Capital Fund, Inc. ("Capital"), a diversified, open-end investment company; FPA New Income, Inc. ("New Income"), a diversified, open-end investment company; FPA Funds Trust's FPA Crescent Fund ("Crescent"), a diversified, open-end investment company; and FPA Funds Trust's FPA International Value Fund ("International"), a non-diversified, open-end investment company. Source and Perennial are in FPA's Small/Mid-Cap Quality product; Paramount is in FPA's

Global Value product; Capital is in FPA's Small/Mid-Cap Absolute Value product; New Income is in FPA's Absolute Fixed Income product; Crescent is in FPA's Contrarian Value product; and International is in FPA's International Value product. As of December 31, 2013, the FPA Funds had approximately \$23.8 billion in assets under management. The minimum investment in the open-end investment companies is \$1,500; there is no minimum investment in Source.

#### Separately Managed Accounts

FPA manages client assets in separate accounts in the six value investment style products noted above. Variations within an investment style may result from specific guidelines and restrictions placed on these separately managed accounts by clients. Restrictions on the management of an account must be agreed upon by FPA and the client. Clients who place restrictions, including restrictions as to types of securities, concentrations, cash balances, brokers to be used or not used, etc., should recognize that the performance of their accounts may not be consistent with the performance of accounts managed in the same style with no restrictions or other restrictions. As of December 31, 2013, FPA managed approximately \$3.0 billion in separately managed account assets. Each product negotiates the minimum account size independently and FPA would generally not accept a separately managed account with assets less than \$5 million.

#### Sub-Advised Accounts

FPA is one of five sub-advisors to The Litman Gregory Masters Smaller Companies Fund ("Smaller Companies"), a diversified, open-end investment company in FPA's Small/Mid-Cap Absolute Value product, for which it manages total net assets of approximately \$20.1 million at December 31, 2013. FPA is one of four sub-advisors to The Litman Gregory Masters Alternative Strategies Fund ("Alternative Strategies"), a diversified, open-end investment company in FPA's Contrarian Value product, for which it manages total net assets of approximately \$178.8 million at December 31, 2013. FPA also serves as an Underlying Manager of The Goldman Sachs Multi-Manager Alternatives Fund ("Multi-Manager Alternatives"), a non-diversified, open-end investment company in FPA's Contrarian Value product, for which it manages total net assets of approximately \$29.1 million at December 31, 2013.

#### Private Investment Companies.

FPA is the General Partner of FPA Multi-Advisor Fund, L.P. and of FPA Multi-Advisor II Fund, L.P., each of which is a California limited partnership, and FPA is the manager of FPA Multi-Advisor Offshore Fund, Ltd., a Cayman Islands exempted company (collectively "MAF"). MAF opens investment advisory accounts with other professional asset managers selected and monitored by FPA to manage MAF's assets ("Investment Managers") in limited partnerships, mutual funds, or other investment vehicles sponsored and managed by such Investment Managers, and in cash, government securities, short-term money market instruments and similar securities when the FPA deems appropriate. The investment objective of MAF is capital preservation and steady growth. FPA, as General Partner or manager, does not have discretionary authority over MAF funds once they are placed under management with Investment Managers, except to the extent that it (a) is entitled to withdraw MAF funds from the management of Investment Managers, or (b) selects itself as an Investment Manager. The MAF strategy had approximately \$333.0 million of aggregate total net assets at December 31, 2013. The minimum investment for each Partnership is \$250,000 to \$500,000. MAF is open to accredited investors (as defined in Regulation D under the Securities Act of 1933) who are qualified clients under the Investment Advisers Act of 1940 ("Advisers Act").

FPA is the Manager of FPA Hawkeye Fund, FPA Hawkeye-7 Fund, FPA Global Opportunity Fund, and FPA Value Partners Fund, each a series of FPA Hawkeye Fund, LLC, a Delaware limited liability company, and FPA Hawkeye Offshore Fund, Ltd., a Cayman Islands exempted company (collectively "Hawkeye"). As Manager of Hawkeye, the Adviser seeks above average capital appreciation, primarily through investments in equity securities of US and foreign companies. FPA can also engage in selective short selling of securities in its attempt to dampen portfolio volatility, reduce risk and increase total return. The total short positions may be up to 50% of each series' total asset value, but under normal circumstances will generally be less than that amount. Each series of Hawkeye may use margin borrowing to leverage its returns, up to 50% of total assets. At December 31, 2013, Hawkeye had total combined net assets of approximately \$925.1 million. The minimum investment for each series of Hawkeye is \$500,000. Each series of Hawkeye is open to accredited investors (as defined in Regulation D under the Securities Act of 1933) who are qualified clients under the Advisers Act.

### **Non-Discretionary Investment Services**

The Adviser does not provide non-discretionary investment services.

### **Services Other than Investment Services**

As part of its investment advisory services, FPA keeps books and records for all client accounts and maintains facilities, equipment and office space necessary for such record keeping. FPA also provides officers to the registered investment companies, all of whom are compensated by FPA and are provided at no additional charge to the shareholders of the Fund, except for a fee of 0.10% of average daily net assets paid by Crescent and International for providing financial services, or a reimbursement of expenses up to 0.10% of average daily net assets for providing such financial services to Capital, Paramount and Perennial. As part of its investment services, FPA provides certain services to its managed account clients, including account reconciliation and statement generation.

## **ITEM 5 FEES AND COMPENSATION**

### Advisory Fees for Registered Investment Companies

#### **Source Capital**

Advisory fees are paid by Source to Adviser pursuant to an Investment Advisory Agreement effective on October 1, 2006 ("Source Agreement"). Under the terms of the Source Agreement, Source pays Adviser monthly investment advisory fees, after the end of each month calculated at an annual rate of:

First \$100 million	0.725%
Next \$100 million	0.700%
Over \$200 million	0.675%

The Source Agreement obligates Adviser to reduce its fee by the amount by which certain operating expenses of Source (exclusive of interest, taxes, any expenditures for brokerage services, any uncanceled legal expenses relating to specific portfolio securities or proposed acquisitions or dispositions thereof, and extraordinary expenses

such as litigation, merger, reorganization, or recapitalization) exceed 1.5% of the first \$30 million plus 1% of the remaining average total net assets of Source for the year.

**FPA Paramount Fund, Inc.**

Advisory fees are paid by Paramount to Adviser pursuant to an Investment Advisory Agreement effective on November 15, 2013 ("Paramount Agreement"). Under the terms of the Paramount Agreement, Paramount pays Adviser a monthly fee calculated at the annual rate of 1.00% of Paramount's average net assets.

In addition, the Adviser receives an amount equal to 0.10% of Paramount's average daily net assets for each fiscal year in reimbursement for the provision of financial services to Paramount. The Paramount Agreement obligates Adviser to reduce its fee and the reimbursement by the amount by which certain operating expenses of Paramount (exclusive of interest, taxes, any expenditures for brokerage services, and extraordinary expenses such as litigation, merger, reorganization, or recapitalization) exceed 1.32% of the average net assets of Paramount for the year.

**FPA Perennial Fund, Inc.**

Advisory fees are paid by Perennial to Adviser pursuant to an Investment Advisory Agreement effective on October 1, 2006 ("Perennial Agreement"). Under the terms of the Perennial Agreement, Perennial pays Adviser a monthly fee, after the end of each month, calculated at the annual rate of:

First \$50 million (of average daily net assets)	0.75%
Excess of \$50 million (of average daily net assets)	0.65%

In addition, the Adviser receives an amount equal to 0.10% of Perennial's average daily net assets for each fiscal year in reimbursement for the provision of financial services to Perennial. The Perennial Agreement obligates Adviser to reduce its fee and the reimbursement by the amount by which certain operating expenses of Perennial (exclusive of interest, taxes, any expenditures for brokerage services, and extraordinary expenses such as litigation, merger, reorganization, or recapitalization) exceed 1.5% of the first \$30 million plus 1% of the remaining average net assets of Perennial for the year.

**FPA Capital Fund, Inc.**

Advisory fees are paid by Capital to Adviser pursuant to an Investment Advisory Agreement effective on October 1, 2006 ("Capital Agreement"). Under the terms of the Capital Agreement, Capital pays Adviser a monthly fee, after the end of each month, calculated at the annual rate of:

First \$50 million (of average daily net assets)	0.75%
Excess of \$50 million (of average daily net assets)	0.65%

In addition, the Adviser receives an amount equal to 0.10% of Capital's average daily net assets for each fiscal year in reimbursement for the provision of financial services to Capital. The Capital Agreement obligates Adviser to reduce its fee and the reimbursement by the amount by which certain operating expenses of Capital (exclusive

of interest, taxes, any expenditures for brokerage services, and extraordinary expenses such as litigation, merger, reorganization, or recapitalization) exceed 1.5% of the first \$30 million plus 1% of the remaining average net assets of Capital for the year.

#### **FPA New Income, Inc.**

Advisory fees are paid by New Income to Adviser pursuant to an Investment Advisory Agreement effective on October 1, 2006 ("New Income Agreement"). Under the terms of the New Income Agreement, New Income pays Adviser a monthly fee calculated at the annual rate of 0.5% of New Income's net assets. The New Income Agreement obligates Adviser to pay New Income for any operating expenses (exclusive of interest, taxes, and brokerage fees and commissions payable by New Income in connection with the purchase or sale of portfolio securities) in excess of 1.5% of the first \$15 million plus 1% of the remaining average net assets of New Income for the year.

#### **FPA Crescent Fund**

Advisory fees are paid by Crescent to Adviser pursuant to an Investment Advisory Agreement effective on October 1, 2006 ("Crescent Agreement"). Under the terms of the Crescent Agreement, Crescent pays Adviser a monthly fee calculated at the annual rate of 1% of Crescent's average daily net assets. In addition, the Adviser receives a fee equal to 0.10% of Crescent's average daily net assets for each fiscal year for the provision of financial services to Crescent. The Crescent Agreement obligates Adviser to pay Crescent for any operating expenses (exclusive of interest, taxes, and brokerage fees and commissions payable by Crescent in connection with the purchase or sale of portfolio securities) in excess of any limits set by applicable state securities commissions.

#### **FPA International Value Fund**

Advisory fees are paid by International to Adviser pursuant to an Investment Advisory Agreement effective on December 1, 2011 ("International Agreement"). Under the terms of the International Agreement, International pays Adviser a monthly fee calculated at the annual rate of 1% of International's average daily net assets. In addition, the Adviser receives a fee equal to 0.10% of International's average daily net assets for each fiscal year for the provision of financial services to International. The Adviser has contractually agreed to reimburse expenses in excess of 1.32% of the average net assets of International (exclusive of interest, taxes, the cost of brokerage and research services, and extraordinary expenses such as litigation) until June 30, 2015.

As stated above, in addition to the advisory fees paid by Paramount, Perennial, Capital, Crescent, and International, each Fund either pays a fee to, or reimburses the Adviser for, the costs incurred by the Adviser in providing financial services to each Fund including, among other normal financial services for each Fund, maintaining the accounts, books and other documents which constitute the record forming the basis for each Fund's financial statements, preparation of such financial statements, preparation of such financial statements and other Fund documents and reports of a financial nature required by Federal and state laws, calculating daily net asset value of each Fund, and participating in the production of each Fund's registration statements, prospectuses, proxy solicitation materials and reports to stockholders (including compensation of the Treasurer or other principal financial officer of the Fund, compensation of personnel working under such person's direction and expenses of office space, facilities and equipment used by such personnel in the performance of



their financial services duties to each Fund); provided, however, that the fee or reimbursement shall not exceed 0.10% of the average net asset value of each Fund for any fiscal year.

#### Advisory Fees for Sub-Advised Accounts

Advisory fees are paid by Smaller Companies to Adviser pursuant to an Investment Sub-Advisory Agreement effective on October 1, 2006 ("Smaller Companies Agreement"). Under the terms of the Smaller Companies Agreement, Smaller Companies pays Adviser a monthly fee calculated at the annual rate of 0.60% of Smaller Companies' average daily net assets.

Advisory fees are paid by Alternative Strategies to Adviser pursuant to an Investment Sub-Advisory Agreement effective on September 1, 2011 ("Alternative Strategies Agreement"). Under the terms of the Alternative Strategies Agreement, Alternative Strategies pays Adviser a monthly fee calculated at the annual rate of 1.00% of Alternative Strategies' average daily net assets.

Advisory fees are paid by Multi-Manager Alternatives to Adviser pursuant to an Investment Sub-Advisory Agreement effective on October 17, 2013 ("Multi-Manager Alternatives Agreement"). Under the terms of the Multi-Manager Alternatives Agreement, Multi-Manager pays Adviser a quarterly fee calculated at the annual rate of 1.00% of Multi-Manager's average net daily allocated assets.

#### Advisory Fees for Separately Managed Accounts

Generally, the fee schedule for separately managed accounts of clients, other than investment companies, is fixed after negotiation with the client. The basic fee schedule for separately managed accounts ranges from 0.30% to 1% of assets under management depending on product, asset type, and size of account. Generally, investment advisory agreements for separately managed accounts remain in full force and effect for varying periods up to one year unless terminated by either the client or Adviser upon notice, without payment of penalty.

Pursuant to the agreements, fees are generally billed and payable at the end of each quarter with a provision for pro rata refund for any prepaid fees in the case of cancellation. A managed account agreement may be cancelled at any time, by either party, for any reason, generally on 30 days' written notice. Upon termination of an account, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable.

#### Advisory Fees for Private Investment Funds

##### **MAF Funds**

A management fee is paid by each investor in the MAF Funds to the Adviser at an annual rate of 1.00% of net assets; provided, however, that if the Adviser provides any MAF assets for management by an Investment Manager that is the Adviser or an affiliate of the Adviser, with respect to those assets the Adviser will either waive any asset based compensation payable by MAF or such other FPA Investment

Manager or affiliate, as opposed to performance based compensation which it need not waive. On December 31 of each year, each investor may pay Adviser a performance-based fee up to 15% of the appreciation in that investor's capital balance during the year. The performance fee rate can be lowered or eliminated at the option of the investor based upon the longer the period of the "lock-up" of their capital. If the Adviser provides any MAF assets for investment in a product managed by any Investment Manager that is the Adviser or an affiliate of the Adviser, with respect to those assets the Adviser will receive an incentive allocation only from MAF or such other product; however, as the Investment Manager may receive a higher incentive allocation from such other product than MAF, or vice-versa, this may result in payment by the investors of a higher incentive allocation on such assets than would otherwise be the case. The Adviser, in its discretion, may waive all or any portion of the management fee or the performance based annual incentive allocation with respect to any investor in any fiscal period.

### **Hawkeye Funds**

A management fee is paid by each Member of the Hawkeye and Hawkeye-7 Funds ("Hawkeye Funds") at an annual rate of 1.00% of the Member's capital account balance; provided, however, that if the Adviser provides any Fund assets for management by an Investment Manager that is the Adviser or an affiliate of the Adviser, with respect to those assets the Adviser will either waive any asset based compensation payable by Hawkeye or such other FPA Investment Manager or affiliate, as opposed to performance based compensation which it need not waive. On December 31 of each year, each Member pays Adviser a performance-based incentive allocation equal to 20% of the appreciation in the Member's account balance during the year. The annual incentive allocation is payable only if, and to the extent that, (i) the net capital appreciation of a Member's capital account for the year exceeds any net capital depreciation accumulated in prior years, and (ii) the net capital appreciation of the Member's capital account for the year meets or exceeds 5% after the incentive allocation for the year.

### **FPA Global Opportunity Fund**

A management fee is paid by each Member of FPA Global Opportunity Fund ("GOF") to Adviser at an annual rate of 1.25% of the Member's capital account balance; provided, however, that if the Adviser provides any GOF assets for management by an Investment Manager that is the Adviser or an affiliate of the Adviser, with respect to those assets the Adviser will either waive any asset based compensation payable by GOF or such other FPA Investment Manager or affiliate, as opposed to performance based compensation which it need not waive. On December 31 of each year, each Member pays Adviser a performance-based incentive allocation equal to 20% of the appreciation in excess of 7% in the Member's account balance during the year. The annual incentive allocation is payable only if, and to the extent that, (i) the net capital appreciation of a Member's capital account for the year exceeds any net capital depreciation accumulated in prior years, and (ii) the net capital appreciation of the Member's capital account for the year exceeds 7%.

### **FPA Value Partners Fund**

A management fee is paid by each Member of FPA Value Partners Fund ("VPF") to Adviser at an annual rate of 0.50% of the Member's capital account balance; provided, however, that if the Adviser provides any VPF assets for management by an Investment Manager that is the Adviser or an affiliate of the Adviser, with respect to those assets the Adviser will either waive any asset based compensation payable by VPF or

such other FPA Investment Manager or affiliate, as opposed to performance based compensation which it need not waive. On December 31 of each year, each Member pays Adviser a performance-based incentive allocation equal to 20% of the appreciation in excess of 5% in the Member's account balance during the year. The annual incentive allocation is payable only if, and to the extent that, (i) the net capital appreciation of a Member's capital account for the year exceeds any net capital depreciation accumulated in prior years, and (ii) the net capital appreciation of the Member's capital account for the year exceeds 5%.

For the Hawkeye Funds, GOF, and VPF, if the Adviser provides any Fund assets for investment in a product managed by an Investment Manager that is the Adviser or an affiliate of the Adviser, with respect to those assets the Adviser will receive an incentive allocation only from the Fund or such other product; however, as the Investment Manager may receive a higher incentive allocation from such other product than the Fund, or vice-versa, this may result in payment by the Members of a higher incentive allocation on such assets than would otherwise be the case. The Adviser as Managing Member, in its discretion, may waive all or any portion of the management fee or the performance based annual incentive allocation with respect to any Member in any fiscal period.

Investors in private investment funds may be limited in their ability to terminate their participation in the pooled investment vehicle. Such limits are set out in the Memorandum or other private investment fund offering documents, which should be read carefully. Investors in the Fund will generally only be able to redeem their investment on the last business day of the calendar quarter two years following his or her admission as a Member, and at the end of each two year period, thereafter. Upon termination, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable.

All of the Adviser's clients incur commissions charged by brokers in connection with security transactions to which the client is a party or with securities owned by the clients.

## **ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Adviser has entered into performance fee arrangements with pooled investment vehicles (i.e., "hedge funds" or "private investment companies") which provide for compensation to the Adviser on the basis of a share of the capital gains upon, or the capital appreciation of, the assets or any portion of the assets. These arrangements are contingent upon satisfying all the conditions in Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act").

The private investment funds' profit allocation and the performance-based fees are designed to reward the Adviser based upon its level of success in meeting the objectives of the private investment fund. Also, the private investment company may enter into arrangements with certain investment managers or hedge funds or other investment vehicles that compensate their investment managers, in whole or in part, based on the appreciation in value (including unrealized appreciation) of the private investment fund's account during specific measuring periods. Such performance fee arrangements may create an incentive for the manager and such investment managers to make investments that are riskier or more speculative than would otherwise be the case. Further, the manager and any investment manager that makes a profit for the private investment fund in a particular calendar

year on the private investment fund's assets could earn an incentive allocation or fee, even though the private investment fund may in the aggregate incur a net loss for such calendar year. See Private Investment Funds above for a detailed discussion of performance fee arrangements.

Potential conflicts may arise when the Adviser manages a mutual fund or other account with an asset-based fee and a private investment fund with a performance-based fee. For example, if those clients pursue the same or similar strategies, the Adviser may have an incentive to favor the performance-based fee account (e.g. in the allocation of investment opportunities and aggregation of orders). Although FPA manages other accounts that may have similar investment objectives or strategies, FPA has adopted policies and procedures, including its allocation policies that are designed to address material conflicts of interest which may arise.

Under FPA's allocation policies, the Adviser attempts to allocate portfolio transactions equitably whenever concurrent decisions are made to purchase or sell securities for its advisory accounts. In some cases, this procedure could have an adverse effect on the price or amount of securities available to the Fund. The main factors considered in such allocations are the respective investment objectives, the relative amount of portfolio holdings of the same or comparable securities, the availability of cash for investment, the size of investment commitments generally held, and the opinion of the persons responsible for recommending the investments.

## **ITEM 7 TYPES OF CLIENTS**

The Adviser generally provides investment advice to registered investment companies; state or municipal government entities; pension and profit sharing plans; trusts, estates, or charitable organizations; corporations or business entities other than those previously referenced; and private investment funds. Each product negotiates the minimum account size independently and FPA would generally not accept a separately managed account with assets less than \$5 million. The private investment companies have a minimum investment ranging from \$250,000 to \$500,000 per partner/member. The minimum investment for the open-end investment companies is \$1,500.

## **ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

FPA is a leading practitioner of value investing. Providing a prudent place to invest, FPA focuses on generating superior returns over the long-term coupled with capital preservation. FPA's equity and fixed income styles are linked by a common fundamental value orientation. FPA's goal is to provide consistent, risk-averse and disciplined approach to long-term investing in individual securities with the objectives of achieving superior total returns for client portfolios.

### **Methods of Analysis**

FPA uses a variety of sources of information to facilitate methods of analysis. In particular, FPA may consult with research analysts, specific broker-dealers, economists and others in formulating investment strategies. FPA may also attend company presentations and participate in interviews and industry sponsored conferences. FPA may engage in discussions with management and others having business with the company or expertise in a particular

industry. FPA also regularly monitors newspapers, magazines and industry and trade related journals; websites; information provided by affiliated and unaffiliated analysts and consultants; corporate rating services; annual reports, prospectuses, and SEC or governmental filings; and information published by a company, such as press releases.

FPA also takes into account the following valuation criteria, which are guidelines generally aimed at identifying undervalued or reasonably valued securities: (1) avoid high price earnings ratios; (2) avoid very high price to book value ratios; (3) trade against the direction of the market (i.e. buy on weakness, sell on strength); and (4) concentrate primarily on securities which are out-of-favor, under-researched, or under-owned by institutional investors.

General descriptions of FPA's investment strategies are included below. These descriptions are not intended to serve as specific guidelines. FPA reserves the right to limit the availability of any particular strategy at any given time based on factors including capacity, pre-existing relationships, minimum account sizes, fees and distribution channels. In addition, FPA may develop other investment strategies from time to time and manage portfolios according to a client's specific investment guidelines, thus strategies may vary by client account.

Prospectuses and statements of additional information for the registered investment companies, and the offering memoranda for the private investment funds, contain important information concerning the investment objectives, strategies, policies, and risks for those funds. Shares of the registered investment companies are sold solely pursuant to their respective registration statements and interests in the private investment companies are sold solely pursuant to their respective offering memoranda to persons who satisfy the eligibility requirements imposed by the federal securities laws for the purchase of such interests in private offerings.

The results for individual portfolios will vary depending on market conditions and the portfolio's overall composition. All investments carry a certain degree of risk including the possible loss of principal and there is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results, and any investment includes the risk of loss that clients should be prepared to bear. Clients should not assume that portfolio investments in securities will be profitable.

### **Investment Strategies**

Clients retain FPA to utilize one or more of the firm's six fundamental value-oriented investment strategies: Small/Mid-Cap Absolute Value, Small/Mid-Cap Quality, Contrarian Value, Absolute Fixed Income, International Value and Global Value.

**Small/Mid-Cap Absolute Value** strategy seeks long-term growth through investing primarily in carefully selected common stocks and select fixed income securities of small and medium sized-public companies. The strategy identifies five key characteristics; market leading companies with a history of profitability, strong balance sheets, successful management teams, potential for profitability improvement, and absolute, not relative, value. Typically the portfolio will have investments in 20-40 securities, with the top ten securities and the largest three sectors generally constituting more than 50% of the portfolio. Market capitalizations generally fall within the range of \$1 billion to \$4 billion.

**Small/Mid-Cap Quality** emphasizes the selection of individual business and a disciplined judgment of the relative attractiveness of their market valuations. The strategy strives to invest in superior businesses which earn high returns on capital and focus on two key areas, rigorous security selection and minimizing risk of loss. The portfolio has historically been moderately concentrated, with 30-40 positions and has been mostly comprised of companies with small to medium market capitalizations up to \$10 billion.

**Contrarian Value** strategy seeks to generate equity-like returns over the long-term, take less risk than the market and avoid permanent impairment of capital. This strategy seeks the out-of-favor, unloved, or misunderstood, in a word, “contrarian.” The strategy recognizes that returns will not just be driven by what is owned, but also by what is not owned. The strategy invests in securities that it believes offer advantageous upside/downside characteristics, and focuses on five categories: Long Equity – 3:1s, Compounders, Shorter-Term Opportunities, Sum-of-the-Parts, Intra-Company Arbitrages; Short Equity – Deteriorating Businesses, Balance Sheet Issues, Paired Trades, Intra-Company Arbitrages; Credit – Performing Credit, High Yield, Distressed; Other – Illiquid Investments and other Special Situations, and; Cash – A residual of our investment process, rather than a macro-driven rationale. Last, investments are made only after conducting thorough research. The strategy believes this flexible approach greatly enhances the likelihood that it will deliver an equity-like return with less risk over the long-term. The strategy may also invest up to 50% of its assets in foreign securities, including American Depositary Receipts (ADR) and European Depositary Receipts (EDR). Additionally, the strategy seeks opportunities in small and large companies that it believes to have excellent future prospects and are undervalued by the securities markets.

**Absolute Fixed Income** strategy objective entails the prudent maximization of total return currently through a cautious, low-risk emphasis on short to intermediate maturities and very high quality. The strategy pursues a positive absolute return using investments in fixed income securities that focus on income, appreciation and capital preservation. Absolute Fixed Income strategy adheres to the following principles: absolute return, long-term focus, alignment of interest, strict risk/reward parameters, independent decision making, and flexible mandate. Strategy guidelines require a minimum of 75% of net assets to be invested in high quality securities.

**International Value** strategy is a non-diversified strategy that strives to provide above-average capital appreciation over the long-term while attempting to minimize risk of capital losses. The strategy seeks to identify absolute value opportunities across international markets, including both developed and emerging countries, with a primary focus on equities. Investments in the strategy must meet the following criteria: high quality, financial strength, strong management, low absolute valuations. International Value runs a concentrated portfolio based on the stringent criteria and expects to be invested in no more than 25 to 35 stocks.

**Global Value** strategy is a non-diversified strategy that strives for high total investment return, including capital appreciation and income, while minimizing risk of permanent loss. The strategy seeks to identify value opportunities across markets globally, including both developed and emerging countries, with a primary focus on equities. Investments in the strategy must meet the following criteria: high quality, financial strength, strong management, low absolute valuations. Global Value runs a concentrated portfolio based on the stringent criteria and expects to be invested in no more than 25 to 50 stocks at any given time.

## **Principal Risks**

While FPA seeks to manage accounts so that risks are appropriate to the return potential for the strategy, it is often not possible to fully mitigate risks. As with any investment, loss of principal is a risk of investing in accordance with the investment strategies described above. However, the following list of risk factors does not claim to be a complete account or explanation of the risks involved in an investment strategy nor do all risks apply to each strategy. FPA investors are encouraged to read investment agreements, prospectuses or offering memorandum specific to each strategy before investing. Due to the ever changing nature of the markets, strategies may be subject to additional risks factors not mentioned below.

### Equity Risk

*Common Stock Risk-* The risks that could affect the value of the strategy's products and the total return on your investment include the possibility that the equity securities, generally common stocks and/or ADRs of U.S. and foreign domiciled companies held, will experience sudden, unpredictable drops in value or long periods of decline in value. This may occur because of factors that affect the securities markets generally, such as adverse changes in economic conditions, the general outlook for corporate earnings, interest rates or investor sentiment. Equity securities may also lose value because of factors affecting an entire industry or sector, such as increases in production costs or factors directly related to a specific company, such as decisions made by its management.

*Mid-Cap and Small-Cap Companies Risk-* Investing in smaller companies generally involves greater risk than investing in larger companies and securities of smaller companies are often more volatile. The prices of securities of mid-cap and small-cap companies tend to fluctuate more widely than those of larger, more established companies. Mid-cap and small-cap companies may have limited product lines, markets or financial resources or may depend on the expertise of a few people and may be subject to more abrupt or erratic market movements than securities of larger, more established companies or the market averages in general. Securities of such issuers may lack sufficient market liquidity to effect sales at an advantageous time or without a substantial drop in price. In addition, small and mid-cap companies often have shorter operating histories and are more reliant on key products or personnel than larger companies. Securities of such issuers may lack sufficient market liquidity to effect sales at an advantageous time or without a substantial drop in price.

*Value Stock Risks-* Value stocks, including those selected by FPA for a strategy, 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, the market may favor certain stocks (value stocks vs. growth stocks) and the strategy may hold investments that are out of favor. FPA's value discipline often results in a portfolio of stocks that may differ materially from its benchmark index.

*Concentration Risk-* FPA manages both diversified and non-diversified strategies. As such a portfolio may from time to time have more than 5% of total assets invested in the securities of a single company. Such

relative concentration is likely to increase the volatility of the portfolio's asset value. If an adverse event depresses the value of a particular security, an investment in a security proves in retrospect to be inopportune because of other adverse developments or the vagaries of the markets, or company-specific events reduce the income or return generated from its securities, the products in the strategy may be more susceptible to losses if one invested in more companies.

### Fixed Income Risks

*Interest Rate Risk-* Changes in interest rates are one of the most important factors that could affect the value of an investment in a strategy's products. Rising interest rates tend to cause the prices of debt securities (especially those with longer maturities) to fall. Investments in fixed-income securities with longer maturities generally produce higher yields but are subject to greater market fluctuation. Rising interest rates may also cause investors in mortgage-backed and asset-backed securities to be paid off later than anticipated, forcing the products in the strategy to keep its money invested at lower rates or to sell the securities at lower prices. Falling interest rates, however, generally cause investors in mortgage-backed and asset-backed securities to be paid off earlier than expected, forcing the products in the strategy to reinvest the money at a lower interest rate.

*Duration Risk-* The concept of duration is useful in assessing the sensitivity of the fixed-income portion of the products in a strategy to interest rate movements, which are the main source of risk for the fixed-income portion of these products. Duration measures price volatility by estimating the change in price of a debt security for a 1% change in its yield. For example, a duration of five years means the price of a debt security will change about 5% for every 1% change in its yield. Thus, the higher the duration, the more volatile the security.

*Credit Risk-* The credit rating or financial condition of an issuer may also affect the value of a debt security. 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 or becomes unable to honor its financial obligations, the security may lose some or all of its value. The issuer of an investment-grade security is typically valued as more likely to pay interest and repay principal than an issuer of a lower rated bond. Adverse economic conditions or changing circumstances, however, may weaken the issuer's capacity to pay interest and repay principal.

*High Yield Risk-* High yield bonds, commonly referred to as "junk" bonds, are highly speculative securities that are usually issued by smaller, less credit-worthy and/or highly leveraged (indebted) companies. Compared with investment-grade bonds, high yield bonds carry a greater degree of risk and are less likely to make payments of interest and principal. Market developments and the financial and business conditions of the corporation issuing these securities influence their price and liquidity more than changes in interest rates, when compared to investment-grade debt securities. Insufficient liquidity in the high yield bond market may make it more difficult to dispose of high yield bonds and may cause products in the portfolio to experience sudden and substantial price declines. A lack of reliable, objective data or market quotations may make it more difficult to value high yield bonds accurately. There is no limit on the ratings of high



yield securities that may be purchased or held by the portfolios in the strategy and the strategy may also invest in securities that are in default.

*Mortgage-Backed Securities Risk-* The value of mortgage-backed securities may be affected by, among other factors, changes or perceived changes in: interest rates, factors concerning the interests in and structure of the issuer or the originator of the mortgages, the creditworthiness of the entities that provide any supporting letters of credit, surety bonds or other credit enhancements, or the market's assessment of the quality of underlying assets. Payment of principal and interest on some mortgage-backed securities (but not the market value of the securities themselves) may be guaranteed by the full faith and credit of the U.S. Government or by its agencies, authorities, enterprises or instrumentalities, which are not insured or guaranteed by the U.S. Government. Mortgage-backed securities issued by non-governmental issuers (such as commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers) may entail greater risk than obligations guaranteed by the U.S. Government. Mortgage-backed securities are subject to prepayment risk, which is the possibility that the underlying mortgage may be refinanced or prepaid prior to maturity during periods of declining or low interest rates, causing the strategy's products to have to reinvest the money received in securities that have lower yields. Rising or high interest rates tend to extend the duration of mortgage-backed securities, making their prices more volatile and more sensitive to changes in interest rates.

*Repurchase Agreement Risk-* A repurchase agreement is a short-term investment. A strategy's products may acquire a debt security that the seller agrees to repurchase at a future time and set price. If the seller declares bankruptcy or defaults, the products in this strategy may incur delays and expenses liquidating the security. The security may also decline in value or fail to provide income.

*Convertible Securities Risk-* Convertible securities are generally not investment grade and are subject to greater credit risk than higher-rated investments. They may also be less liquid and more difficult to value than higher-rated debt securities.

### Foreign Securities Risk

*Foreign Securities Risk-* The economies of some foreign markets often do not compare favorably with that of the U.S. in areas such as growth of gross domestic product, reinvestment of capital, resources, and balance of payments. Some of these economies may rely heavily on particular industries or foreign capital. They may be more vulnerable to adverse diplomatic developments, the imposition of economic sanctions against a country, changes in international trading patterns, trade barriers and other protectionist or retaliatory measures. Governmental actions, such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets or the imposition of punitive taxes, may adversely affect investments in foreign markets. The governments of certain countries may prohibit or substantially restrict foreign investing in their capital markets or in certain industries. This could severely affect security prices. This could also impair the ability to purchase or sell foreign securities or transfer assets or income back to the U.S. or otherwise adversely affect the management of the portfolio. Other foreign market risks include foreign exchange controls, difficulties in pricing securities, defaults on foreign government securities,

difficulties in enforcing favorable legal judgments in foreign courts, and political and social instability. Legal remedies available to investors in some foreign countries are less extensive than those available to investors in the U.S. Many foreign governments supervise and regulate stock exchanges, brokers and the sale of securities less than the U.S. government does. Corporate governance may not be as robust as in more developed countries. As a result, protections for minority investors may not be strong, which could affect security prices. Accounting standards in other countries are not necessarily the same as in the U.S. If the accounting standards in another country do not require as much disclosure or detail as U.S. accounting standards, it may be harder to completely and accurately determine a company's financial condition. Because there are usually fewer investors on foreign exchanges and smaller numbers of shares traded each day, it may be difficult to buy and sell securities on those exchanges. In addition, prices of foreign securities may go up and down more than prices of securities traded in the U.S. Foreign markets may have different clearance and settlement procedures. In certain markets, settlements may not keep pace with the volume of securities transactions. If this occurs, settlement may be delayed, and assets may be uninvested and may not be earning returns, or other investment opportunities may be missed. Changes in currency exchange rates will affect the value of foreign holdings or exposures. The costs of foreign securities transactions tend to be higher than those of U.S. transactions, increasing the transaction costs. International trade barriers or economic sanctions against foreign countries may adversely affect holdings or exposures.

*Emerging Markets Risk-* Investments in foreign issuers in developing or emerging market countries involve increased exposure to changes in economic, social and political factors. The economies of most emerging market countries are in the early stage of capital market development and may be dependent on relatively fewer industries. As a result, their economic systems are still evolving, and their political systems are typically less stable than those in developed economies. Securities markets in these countries can also be smaller, and there may be increased settlement risks. Emerging market countries often suffer from currency devaluation and higher rates of inflation. Due to these risks, securities issued in developing or emerging countries may be more volatile, less liquid, and harder to value than securities issued in more developed countries.

### Non-Diversified Risk

Certain strategies are non- diversified and may invest a greater percentage of its total assets in the securities of fewer issuers than a “diversified” strategy. This increases the risk that a change in the value of any one investment in the portfolios of the strategy could affect the overall value more than it would affect that of a diversified strategy holding a greater number of investments. Accordingly, a portfolio in a non-diversified strategy will likely be more volatile than the value of a portfolio in a more diversified strategy.

## **ITEM 9      DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or a prospective client's evaluation of FPA's advisory business or the integrity of its management.

## **ITEM 10      OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **Registered Investment Companies**

FPA is the investment adviser to Source, a publicly traded, diversified, closed-end investment company; and Perennial, Capital, New Income and Crescent, all of which are diversified, open-end investment companies. FPA is also the investment adviser to Paramount and International, which are non-diversified, open-end investment companies.

FPA is one of five sub-advisors to Smaller Companies, a diversified, open-end investment company, and one of four sub-advisors to Alternative Strategies, a diversified, open-end investment company. FPA also serves as an Underlying Manager of Multi-Manager Alternatives Fund, a non-diversified, open-end investment company.

### **Private Investment Companies**

FPA is the General Partner of FPA Multi-Advisor Fund, L.P. and of FPA Multi-Advisor II Fund, L.P., each of which is a California limited partnership, and manager of FPA Multi-Advisor Offshore Fund, Ltd., a Cayman Islands exempted company.

FPA is the Managing Member of FPA Hawkeye Fund, FPA Hawkeye-7 Fund, FPA Global Opportunity Fund, and FPA Value Partners Fund, each of which is a series of FPA Hawkeye Fund, LLC, a Delaware limited liability company, and manager of FPA Hawkeye Offshore Fund, Ltd., a Cayman Islands exempted company.

FPA is currently exempt from CFTC registration requirements.

### **Broker-Dealer**

FPA is not registered, nor has any pending application for registration as a broker-dealer. Certain employees of FPA are registered representatives of UMB Distribution Services, LLC, a registered broker-dealer, to the extent necessary or required to perform their job responsibilities. UMB Distribution Services, LLC is the distributor of shares of Capital, Crescent, International, New Income, Paramount, and Perennial, and other registered investment companies not managed by FPA.

## **ITEM 11      CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

FPA has adopted a Code of Ethics (the “Code”) in compliance with the requirements of the United States Securities Exchange Commission (“SEC”), Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”), and Rule 17j-1 under the Investment Company Act of 1940 (the “1940 Act”), as amended. The purpose of the Code is to set forth the standards of conduct expected of all employees, directors, officers of the firm (“Employees”), and to demonstrate FPA’s commitment to the highest legal and ethical standards and to provide guidance in understanding and fulfilling these responsibilities. FPA and its employees strive at all times to

conduct its business in accordance with its fiduciary obligations, which include the duties of care, honesty, integrity, and good faith.

The Code requires certain business activity or conduct to be reported and monitored to avoid potential conflicts of interest. In addition, the Code also outlines policies and procedures designed to detect and prevent conflicts of interest relating to personal trading by all Employees and to ensure that FPA effects transactions for clients in a manner consistent with its fiduciary duty and in accordance with applicable laws.

The Adviser may recommend to clients the purchase of shares of registered investment companies and interests in private investment companies for which it serves as investment adviser. The Adviser acts as General Partner or manager of each MAF Fund and Managing Member of Hawkeye, interests of all of which are offered to clients. To the extent the Adviser recommends such purchases to clients, the Adviser is bound by its fiduciary duty to act in the clients' best interests in making those recommendations.

Employees are not permitted to purchase any securities that are under active consideration for purchase or sale or are being purchased or sold by any of the accounts managed by the Adviser. In addition, all Employees are forbidden from trading, either personally or on behalf of others, on material nonpublic information or communicating material nonpublic information to others in violation of the law. The Code incorporates recommendations and requirements of Rule 17j-1 of the 1940 Act and guidelines issued by the Investment Company Institute in 1994 regarding restrictions and prohibitions on certain trading practices and limitations upon certain other employee activities. The provisions of the Code apply equally to all Employees of the Adviser regardless of their position within the organization.

Various procedures have been adopted under the Code including the requirement to pre-clear all applicable transactions, provide the Adviser with duplicate confirmations of all applicable transactions, and the imposition of a seven calendar day blackout period. On a quarterly basis, all employees must provide a report on all applicable transactions in any security in which they have or acquire direct or indirect ownership. This reporting requirement also applies to securities issued by the Government of the United States or state/local municipalities, and shares of registered open-end investment companies. This requirement does not apply to the 401k investments and month-end direct payroll deductions into the mutual funds managed by the Adviser, nor does it apply to money market funds, bankers' acceptances, bank certificates of deposit, or commercial paper. All employees must disclose any broker dealer, bank or other account used or maintained for security transactions upon commencement of employment. On an annual basis, all employees must provide a full accounting of their personal securities holdings, certify that they have read and understand the Code, and certify that they have complied with the provisions of the Code. Additionally, on an annual basis, all employees must disclose any board memberships for which they serve, other than the investment companies managed by the Adviser, and acknowledge that they have disclosed in writing to their supervisor any ongoing business activities outside of their employment with the Adviser.

Securities issued by the United States or state/local municipalities, bankers' acceptances, bank certificates of deposit, commercial paper, and shares of registered open-end investment companies are excluded from the pre-clearance, duplicate confirmations and blackout period requirements of the Code. A copy of the Adviser's Code is

available upon written request to:

FPA, LLC

Attn: Corporate Secretary

11400 West Olympic Boulevard, Suite 1200

Los Angeles, CA 90064

From time to time, employees may be offered or receive gifts and entertainment from entities with whom FPA conducts business. Under the Code, employees are subject to certain limitations regarding the receipt and giving of gifts and other benefits from any client, prospective client, or any person or entity that does or seeks to do business with or on behalf of the firm.

Under the Code, employees are prohibited from making political or charitable contributions for the sole purpose of obtaining or retaining advisory contracts. Periodically, employees may make political contributions and are subject to certain limitations regarding political contributions. FPA has established policies and procedures to comply with applicable law regarding political contributions. In addition, FPA also requires all applicable contributions to be pre-cleared and employees are required to certify on a quarterly basis that they have reported such applicable political contributions.

## **ITEM 12    BROKERAGE PRACTICES**

Generally, Adviser makes decisions to buy and sell securities for its clients, selects brokers and dealers and negotiates commission rates or net prices. Equity securities are generally traded on an agency basis. For fixed-income securities traded in the over-the-counter market, orders are placed directly with a principal market maker, unless it is believed better prices and executions are available elsewhere, generally on an agency basis. In selecting brokers to be used in portfolio transactions, Adviser's primary consideration is to obtain the best overall execution for each account in each trade, which is a combination of price and execution. With respect to execution, Adviser considers a number of judgmental factors including the actual handling of the order, the ability of the broker to settle the trade promptly and accurately, Adviser's past experience with the broker on similar trades and other factors that may be unique to that particular order. If the primary consideration of best overall execution is met, agency transactions for the client are typically placed with brokers that provide brokerage and research services to the client or Adviser at commission rates considered to be reasonable, although they may be higher than the lowest rates that may be available.

While research services may be useful in supplementing other available investment information, when the Adviser uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Adviser benefits by not having to produce or pay for that research or those other products or services. The agreements with Adviser's clients authorize Adviser to cause the clients to pay commissions to broker-dealers furnishing research services in an amount higher than would have been charged by another broker-dealer if Adviser determines in good faith that the amount is reasonable in relation to the services provided as required by Section 28(e) of the Securities Exchange Act of 1934. In making this determination, Adviser may consider not only the particular transaction and the value of brokerage and research services to a

particular client, but also the value of those services in Adviser's performance of its overall investment responsibilities to all of its clients.

The research received by Adviser includes information on the U.S. and world economies; information on specific industries, groups, companies, or other news affecting specific securities or markets; and technical and quantitative information. Research is received in the form of written reports, telephone contacts, personal meetings, research seminars, and access to computer databases. Some of these research services are paid for through the use of third-party soft dollar arrangements. The client bears the cost of such services and each account may either contribute to the payment for research which benefits others or be the benefactor of similar research paid for by others.

Adviser maintains an internal allocation procedure to identify those brokers which have provided it with research. Internal guidelines are established by each portfolio manager to provide direction to the Trading Department and are usually based on the quality and usefulness of the research provided and its value to Adviser. A summary of the commissions paid to brokers are provided to the portfolio managers and the CCO of Adviser on a regular basis for their review.

Because many of these research services could be considered to provide some benefit to Adviser and the "soft dollars" used to acquire them are assets of Adviser's clients, Adviser could be considered to have a conflict of interest in allocating client brokerage business. In addition, Adviser could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage commissions with which to acquire research.

Adviser manages the portfolios of a number of investment companies and advisory accounts. In the opinion of Adviser, it is not possible to measure separately the benefits from brokerage and research services to each of the accounts managed by Adviser. Because the volume and nature of the trading activities of the accounts managed by Adviser are not uniform, the amount of commissions in excess of the lowest available rate paid by each account for brokerage and research services will vary. However, in the opinion of Adviser, such costs to each client will not be disproportionate to the benefits received by each client on a continuing basis.

Adviser seeks to allocate portfolio transactions equitably whenever concurrent decisions are made to purchase or to sell identical securities for several clients managed by Adviser. Adviser typically aggregates orders for its client accounts for the same security where concurrent decisions are made to purchase or to sell identical securities for several clients managed by Adviser and such aggregation will generally result in more favorable net results for its clients. In these cases, Adviser will allocate the securities or proceeds arising out of those transactions (and the related expenses) on an average price basis among the various participants. While Adviser believes combining orders in this way will, over time, be advantageous to all participants, in particular cases, this procedure could have an adverse effect on the price or the amount of securities purchased or sold by any one client. In making such allocations, the main factors considered by Adviser are the respective investment objectives, the relative size of portfolio holdings of the same or comparable securities, the availability of cash for investment, the size of investment commitments generally held and the opinions of the persons responsible for recommending the investment.

The Adviser may only enter into cross transactions where prudent and in compliance with SEC and Department of Labor rules and where permitted by accounts under management. The Adviser has developed procedures using the requirements of Rule 17a-7 of the Investment Company Act of 1940 and Rule 206(3)-2 under the Advisers Act as a guide. Cross transactions are generally initiated when a portfolio manager sells a security in an account, for example, to raise cash to meet redemptions. Simultaneously, either that or another portfolio manager would like to increase the amount of that security held in another account which may include an FPA Fund, at the current price level. Cross transactions are executed at the last sale price on trade date as reported by the security's primary exchange or the NASDAQ Official Closing Price for securities traded in the NASDAQ National Market System. If the security is not traded that day or is not listed, the trade is executed at the mean between the highest bid and lowest asked prices based upon inquiry of at least two independent broker-dealers who make a market in the security or by the price provided by an independent pricing service. No fees or commissions are paid by either account and the trades are only initiated if they are consistent with the investment guidelines and objectives of both. All such transactions involving an investment company are reviewed at least quarterly by the Board of each investment company.

## **ITEM 13 REVIEW OF ACCOUNTS**

### **Reviews**

In effect, Adviser's investment advisory accounts are under constant review because of the commonality of holdings among the relatively low number of accounts under management and the limited number of different portfolio securities. These factors facilitate the continual monitoring of client portfolios in relation to changes in market prices and available information (e.g. earnings and dividends). The ongoing interaction between portfolio managers and the Trading Department supplements this review process. The Adviser also utilizes Rules Manager, a module of the accounting system, which provides alerts when trades are entered in the system that may breach investment guidelines. The Trading Department may override some of these alerts, but certain restrictions are subject to permission by the Compliance Department or Senior Management.

### **Reviewers**

Adviser does not have an investment committee or group. Each lead portfolio manager assumes primary responsibility for the ongoing review of the accounts under their management. All reviews are conducted pursuant to the guidelines established by, or in connection with, the applicable account.

The functions of one Managing Partner, the Chief Operating Officer, include being actively involved in managing the business and overseeing compliance with investment restrictions imposed by (1) various investment company documents and the Investment Company Act of 1940, in the case of investment companies, and (2) the client, in the case of managed accounts and private investment funds.

The functions of three Traders of Adviser include being actively involved in compliance with investment restrictions imposed by (1) various investment company documents and the Investment Company Act of 1940, in the case of investment companies, and (2) the client, in the case of managed accounts.

The functions of the Vice President and Chief Compliance Officer of Adviser include assessing, reviewing and reporting on those compliance policies and procedures required by Rule 206(4)-7 of the Investment Advisers Act of 1940 and Rule 38a-1 of the Investment Company Act of 1940.

#### **ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION**

From time to time, FPA may enter into written solicitation agreements for the referral of FPA's investment advisory services under which persons introducing new clients to FPA receive a referral fee. Generally, the fee is based on a percentage of the investment advisory fees earned on assets invested with FPA at the commencement of the relationship. Clients do not pay higher fees as a result of these arrangements.

#### **ITEM 15 CUSTODY**

The Adviser does not maintain possession or custody of the funds or securities of any client. The custodial arrangements for the Adviser's registered investment company clients are subject to regulation under the Investment Company Act of 1940. State Street Bank and Trust Company is the custodian for each of the registered investment companies managed by the Adviser.

FPA serves as investment manager and a related person serves as general partner of certain Private Funds. As a result, FPA may be deemed to have access to the funds and securities in the Private Funds. FPA, as a matter of policy seeks to ensure that it complies with the pooled investment vehicle exemption and the privately offered securities exemption outlined in Rule 206(4)-2 under the Investment Advisers Act of 1940 (the "Custody Rule" or the "Rule") as amended.

#### **ITEM 16 INVESTMENT DISCRETION**

The Adviser has discretionary authority to manage securities accounts on behalf of its clients. The Adviser's discretionary authority is generally limited by the investment objectives, strategies, policies, and restrictions set forth in the registration statements of its registered investment company clients, the offering memoranda of its private investment company clients, and the account documentation for its other clients.

#### **ITEM 17 VOTING CLIENT SECURITIES**

The Adviser is authorized to vote proxies on behalf of its clients, unless a client specifically retains or delegates this authority to another party in writing. When voting proxies for clients, the Adviser's utmost concern is that all decisions be made solely in the best interest of the client (and for ERISA accounts, plan beneficiaries and participants, in accordance with the letter and spirit of ERISA). The Adviser will act in a prudent and diligent manner intended to enhance the value of the assets of the client's account.

To assist in its proxy-voting responsibilities, FPA subscribes to research and other proxy-administration services. Currently, FPA has contracted with Institutional Shareholder Services, Inc. ("ISS"). ISS was founded in 1985 and



is the world's leading provider of proxy advisory and corporate governance solutions to financial market participants. ISS' services include objective proxy research and analysis, end-to-end proxy voting and distribution solutions, turnkey securities class-action claims management, and reliable governance data and modeling tools.

ISS will provide the following services to FPA:

- Independently analyze and make recommendations for proxy proposals in accordance with the relevant voting platform;
- Posts proxy information on its password-protected website, including meeting dates, agendas, and ISS's analysis;
- Provides FPA with vote administration and execution, recordkeeping (proxy statements and votes), and reporting support services; and
- Annual analysis and rationale for guideline amendments.

A complete copy of FPA's Proxy Voting policies and procedures is available upon written request to:

FPA, LLC

Attn: Corporate Secretary

11400 West Olympic Boulevard, Suite 1200

Los Angeles, CA 90064.

Clients may obtain a complete proxy voting record for the registered investment companies for the annual period ended June 30, at the SEC's website [www.sec.gov](http://www.sec.gov). Separately managed account clients may obtain information on how the Adviser voted their proxies by contacting their client service representative or the Corporate Secretary.

## **ITEM 18 FINANCIAL INFORMATION**

Not Applicable

## **ITEM 19 REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Not Applicable