



**ITEM 1      COVER PAGE**

Form ADV Part 2A

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This brochure provides information about the qualifications and business practices of First Pacific Advisors, LP. 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.

## **ITEM 2 MATERIAL CHANGES**

Form ADV Part 2A requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Generally, First Pacific Advisers, LP (the "Firm" or "FPA") will notify clients of material changes on an annual basis. However, where we determine that an interim notification is either meaningful or required, we will notify our clients promptly. In either case, we will notify our clients in a separate document.

This is an annual amendment of FPA's brochure. There were no material updates.

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## **ITEM 4           ADVISORY BUSINESS**

### **General Description of Adviser and Principal Owners**

FPA was formed in July 2004 as a Delaware limited liability company. On October 1, 2018, FPA was converted to a Delaware limited partnership. Together with its predecessor organizations, FPA has been in the investment advisory business since 1954. FPA maintains its principal office at 11601 Wilshire Boulevard, Suite 1200, Los Angeles, California 90025. The Firm is controlled by its general partner, FPA GP, Inc. (the “General Partner”), which is owned and controlled by J. Richard Atwood and Steven T. Romick as the sole shareholders and directors of the General Partner. In addition, FPA is owned by the following limited partners: J. Richard Atwood, Steven T. Romick, Thomas H. Atteberry, J. Mark Hancock, Mark Landecker, Ryan Leggio, Nico Y. Mizrahi, Abhijeet Patwardhan, and Brian A. Selmo. As of December 31, 2020, FPA employed approximately 84 persons engaged full-time in portfolio management or investment research, investment operations, trading, client service, legal and compliance, and clerical activities.

### **Types of Advisory Services**

FPA offers investment advisory services in several fundamental, primarily value-oriented, investment strategies, including: Absolute Fixed Income, Contrarian Value, Contrarian Value Equity, Small-Cap Value, Core Equity, Large-Cap Value, Multi-Advisor, and Direct Lending Strategy. For additional information about these investment strategies please refer to Item 8.

Under its investment strategies, FPA provides investment advisory services to registered investment companies, private funds and separately managed institutional accounts. In addition, FPA provides investment sub-advisory services to investment advisers of third party-sponsored registered investment companies. Additional information about these advisory services and types of clients are described immediately below and in Item 7.

### **Registered Investment Companies (collectively “FPA Mutual Funds”)**

FPA provides investment advisory services to the following investment companies registered under the Investment Company Act of 1940 (the “Company Act”):

- FPA Funds Trust’s FPA Crescent Fund (“Crescent”), a diversified, open-end registered investment company managed under the Contrarian Value strategy;
- FPA Funds Trust’s FPA Flexible Fixed Income Fund (“FFI”), a diversified, open-end investment company managed under the Absolute Fixed Income strategy;
- FPA New Income, Inc. (“New Income”), a diversified, open-end investment company managed under the Absolute Fixed Income strategy;
- Bragg Capital Trust’s FPA Queens Road Value Fund (“QR Value”), a diversified, open-end investment company managed under the Large-Cap Value strategy;
- Bragg Capital Trust’s FPA Queens Road Small Cap Value Fund (“QR Small Value”), a diversified, open-end investment company managed under the Small-Cap Value strategy;

- FPA U.S. Core Equity Fund, Inc. (“Core Equity”), a diversified, open-end investment company managed under the Core Equity strategy; and
- Source Capital, Inc. (“Source”), a publicly traded, diversified, closed-end investment company managed under the Contrarian Value and Absolute Fixed Income strategies.

#### Separately Managed Accounts/Sub-Advised Accounts (“SMAs”)

FPA provides investment advisory services to a variety of separately managed account clients, including pension and profit-sharing plans, charitable organizations, endowments, insurance companies, corporations, and state and municipal government entities. In addition, FPA provides investment advisory services as a sub-adviser to certain investment advisers to investment companies sponsored by third parties.

#### Private Investment Funds (the “FPA Private Funds”)

FPA serves as the general partner, managing member, and/or manager of several private funds:

- The FPA Multi-Advisor Strategy Funds:
  - FPA Multi-Advisor Fund, L.P.
  - FPA Multi-Advisor Fund II, L.P.
  - FPA Multi-Advisor Offshore Fund, Ltd.
  - FPA Long Opportunity Fund, L.P.
  - FPA Long Opportunity Fund, Ltd., and
  - FPA Income Opportunities Funds:
    - FPA Income Opportunities Master Fund, L.P.
    - FPA Income Opportunities Offshore Fund, L.P.
    - FPA Income Opportunities Onshore Fund, L.P.
- The FPA Contrarian Value and Contrarian Value Equity Strategy Funds:
  - The FPA Hawkeye Funds:
    - The following series of FPA Hawkeye Fund, LLC (a Delaware Series limited liability company):
      - FPA Hawkeye Fund
      - FPA Hawkeye-7 Fund, and

- FPA Global Opportunity Fund
  - FPA Hawkeye Offshore Fund, Ltd.
  - FPA Select Drawdown Fund, L.P.
  - FPA Select Maple Fund, L.P.
  - FPA Select Funds:
    - FPA Select Fund, L.P., and
    - FPA Select Offshore Fund, Ltd.
  - FPA Select II Funds:
    - FPA Select Fund II, L.P., and
    - FPA Select Offshore Fund II, Ltd.
  - FPA Contrarian Value Equity Fund, L.P.
  - FPA Contrarian Value Equity Fund (ERISA), L.P.
  - FPA Value Partners Fund, L.P.
- The Direct Lending Strategy Funds:
  - FPA WhiteHawk III-Plus Master Fund, L.P.
  - FPA WhiteHawk III-Plus Onshore Fund, L.P.
  - FPA WhiteHawk III-Plus Offshore Fund, L.P.
  - FPA WhiteHawk III Master Fund, L.P.
  - FPA WhiteHawk III Onshore Fund, L.P.

### **Investment Strategies and Restrictions**

FPA manages the FPA Mutual Funds and FPA Private Funds based on each such client's strategies, restrictions, and guidelines and does not tailor its advisory services to any particular investor in an FPA Mutual Fund or FPA Private Fund.

With respect to SMAs, FPA will consider each client's risk tolerance, time horizon, tax status, liquidity needs, return objectives and preferences.

FPA provides its investment advisory services in accordance with the specific investment objectives and restrictions of each client, in accordance with and subject to the directions,

guidelines, and limitations imposed by the client through, as applicable, the investment management agreement, prospectus and statement of additional information, private placement memorandum, limited partnership agreement, and/or other governing documents (the “Governing Documents”).

FPA’s investment discretion with respect to managing the FPA Mutual Funds is also subject to the parameters provided by and oversight of the respective FPA Mutual Fund’s governing body (e.g., board of directors/trustees).

For certain FPA Mutual Funds and FPA Private Funds, FPA has delegated investment discretion to a sub-adviser pursuant to a sub-advisory agreement.

With respect to FPA sub-adviser relationships where FPA acts as sub-adviser, FPA’s investment advisory services are provided in accordance with the relevant sub-advisory agreement.

While FPA does not typically provide tailored investment advice to individual investors in the FPA Private Funds, FPA has entered, and in the future may enter, into “side letters” or similar agreements with certain investors who are granted specific rights, benefits, or privileges that are not generally made available to other investors, including preferential fee terms or to address investment restrictions based on regulatory or policy requirements of a particular investor.

In addition, the investment strategy with respect to certain clients may be restricted due to custodial limitations. For instance, limitations or operational impediments associated with a client’s custodian may prohibit such client from holding certain types of securities (e.g., non-U.S. securities in ordinary form) or participate in certain corporate actions relating to portfolio holdings.

FPA organizes its investment vehicles (i.e., FPA Mutual Funds, FPA Private Funds and the SMAs) across several fundamental, primarily value-oriented, investment strategies, including: Absolute Fixed Income, Contrarian Value, Contrarian Value Equity, Small-Cap Value, Core Equity, Large-Cap Value, Multi-Advisor and Direct Lending. While investment vehicles pursuing the same strategy share certain fundamental characteristics, such investment vehicles are typically structured with significant differences in specific investment objectives, risk profiles and other investment criteria, and may or may not hold similar securities and financial instruments. In addition, in circumstances where investment vehicles are intended to have substantial overlap in securities and financial instruments, the held positions may nonetheless differ significantly due to various factors, including but not limited to, account size, account inception dates, client-imposed restrictions, available cash, tax, regulatory, and other considerations.

FPA generally does not use a formal asset allocation model to specify the percentage of each client portfolio that must be invested in any particular asset class or category of securities. Rather, FPA’s asset allocation for each client portfolio is generally a function of the portfolio’s potential risk and reward compared with available opportunities in the marketplace. Cash, cash equivalents, and/or securities issued by the U.S. Department of the Treasury (“U.S. Treasuries”) are generally the default investment choices until FPA identifies new investment opportunities. Accordingly, FPA clients, including the FPA Mutual Funds and the FPA Private Funds, may at any given time hold significant cash balances on an ongoing basis.

FPA does not currently participate in wrap fee programs.

## **Assets Under Management**

As of December 31, 2020, FPA managed assets of approximately \$27.3 billion on a discretionary basis.

## **Assets Under Advisement**

As of December 31, 2020, FPA had no assets under advisement.

## **ITEM 5 FEES AND COMPENSATION**

Compensation earned by the firm for the provision of investment advisory services to our clients is primarily comprised of management fees based on a percentage of assets under management during the investment period, as well as, in certain circumstances, performance-based compensation. As further discussed in Item 6, the different compensation structures used by FPA's clients create a potential conflict in that FPA may be incentivized to allocate investment opportunities to the clients that are subject to performance-based compensation. Management fees and performance-based compensation, if any, are described within the Governing Documents for each client account that FPA manages.

Management fees are generally calculated either by the fund administrators (in case of FPA Mutual Funds and FPA Private Funds), or by SEI Global Services, Inc., ("SEI"), FPA's middle office operations service provider, as per the Governing Documents (in the case of SMAs). Certain SMA clients calculate their own management fees, and FPA or SEI verifies such calculations.

Performance-based compensation, if applicable, with respect to any FPA Private Fund, is generally calculated by the fund administrator. In certain cases, performance-based compensation calculated by the fund administrator may be based on market valuations provided by FPA. With respect to any SMA, performance-based compensation is generally calculated by the SMA client and verified by FPA (or SEI) in accordance with the relevant Governing Documents. In cases where FPA (or SEI) calculates the management fees or performance-based compensation, such management fees or performance-based compensation, as applicable, are not verified by any independent third party.

For FPA Mutual Funds or FPA Private Funds in which FPA has engaged a sub-adviser, FPA pays a portion of the investment advisory fee and performance-based fee/allocation/carried interest (as applicable) it receives to such sub-adviser. FPA may receive an allocation of certain transaction related fees generated by FPA Private Funds' sub-adviser. Investors do not pay any additional fees for sub-advisory services. The portion of the investment advisory fee and performance-based fees/allocations/carried interest (as applicable) paid to sub-advisers are generally calculated by the fund administrator.

FPA, through its Valuation Committee, oversees the valuation of securities. The Valuation Committee maintains procedures requiring, to the extent possible, pricing from an independent third-party pricing vendor as determined by its approved pricing hierarchy. If vendor pricing is unavailable, the Valuation Committee then looks to other observable inputs for its valuations. If a vendor price or other observable inputs are unavailable or deemed unreliable, the Valuation



Committee makes a reasonable determination of a security's fair value. Note that pricing services generally value fixed income securities assuming orderly transactions of institutional round lot size. However, a client account may hold or transact in such securities in smaller, odd lot sizes, whether at the time of initial purchase, after amortization of the security over a period of time, or upon full or partial redemption, which could impact the value. In addition, fixed income securities with maturities of 60 days or less are generally valued at amortized cost.

The following is a general description of the management fees typically charged and other compensation received by FPA for each type of client. Investors and clients should refer to the Governing Documents for complete information on fees and compensation.

### **Advisory Fees for FPA Mutual Funds**

In its capacity as investment manager to the FPA Mutual Funds, FPA typically charges an investment management fee that ranges from 0.50% to 1.00% of the FPA Mutual Funds' average daily net assets. FPA Mutual Fund fees and expenses are described in each FPA Mutual Fund's prospectus and statement of additional information. For certain FPA Mutual Funds, FPA pays a portion of its investment management fee to a sub-adviser. These fees range from 0.24% to 0.39% of such FPA Mutual Fund's average daily net assets.

Investment management fees and any additional compensation paid to FPA may be waived by FPA in its sole discretion, both voluntarily and on a negotiated basis with an FPA Mutual Fund's Board or similar body, or an FPA Mutual Fund's sponsor (though not with individual investors in an FPA Mutual Fund). FPA may receive additional compensation for any administrative or other services provided to the FPA Mutual Funds as described in the respective FPA Mutual Fund's offering documents.

### **Advisory Fees for SMAs**

The basic fee schedule for separately managed accounts typically ranges from 0.25% to 1.00% of assets under management depending on product, asset type, and size of account. In addition, certain SMAs are subject to a performance-based fee payable to FPA, which may range from 1.0% to 10.0% of the appreciation in a SMA client's capital balance during the year, subject to various contingencies such as a hurdle rate or other conditions.

Fees are generally billed monthly or quarterly, in advance or in arrears, based on the market value of the account(s) as specified in the investment management agreement. In addition to securities, market values include cash, cash equivalents, accrued dividends and other income. If an account is opened or closed during a billing period, the advisory fees are pro-rated for that portion of the billing period during which the account was open. FPA may agree to certain fee reductions or waivers. Any such agreements are memorialized in writing.

### **Management Fees for FPA Private Funds**

In its capacity as investment manager to the FPA Private Funds, FPA typically charges an annual management fee, generally paid monthly or quarterly, in an amount generally ranging from 0.30% to 1.50%, depending on the investment strategy, of the net asset value of each investor's investment

in the FPA Private Funds. For certain FPA Private Funds, FPA pays a portion of its investment management fee and performance-based fee to a sub-adviser.

In addition, FPA is entitled to receive from some FPA Private Fund investors performance-based compensation (e.g., incentive allocation and carried interest) ranging from 5% to 25% of either the appreciation in an investor's capital balance during the year or realizations of returns, all of which are subject to various contingencies such as a hurdle rate, high water marks, return of capital, preferred return or other conditions.

In connection certain FPA Private Funds that have retained a Sub-Adviser, the Sub-Adviser may receive agency fees, administration fees, directors' fee and other transaction-based compensation for services provided to such FPA Private Funds' portfolio companies, or generated by (or arising in connection with) such FPA Private Funds' investments (all such compensation, the "Transaction-Based Compensation"). The Governing Documents of such FPA Private Funds provide that such Transaction-Based Compensation will offset 50% of the Management Fees payable by such FPA Private Funds and, accordingly, allows FPA and the Sub-Adviser to retain the balance of such Transaction-Based Compensation.

FPA Private Fund management fees and performance-based compensation are described in more detail in each client's Governing Documents.

FPA may waive all or a portion of the management fees and/or performance compensation due to FPA with respect to an FPA Private Fund on an investor-by-investor basis.

### **General Information**

Management fees and performance-based compensation may vary from the applicable schedules above based on factors such as client type, asset class, pre-existing relationship, service levels, portfolio complexity, number of accounts, account size or other special circumstances or requirements and are negotiable in some cases. Related accounts may be aggregated for management fee and incentive allocation calculation purposes in certain circumstances. FPA will manage some accounts of FPA's employees, affiliate employees, former employees, business associates, and other "friends or family" of FPA, including through their investment in FPA Private Funds, subject to no, or a reduced, management fee and/or performance-based compensation.

When SEI calculates management fees and performance-based compensation, if applicable, for SMA accounts, unless otherwise provided in a SMA client's investment management agreement, valuations of account assets are determined in accordance with FPA's valuation procedures, which generally rely on third party pricing services, but may permit the use of other valuation methodologies in certain circumstances. FPA's determinations may differ from valuations reflected in a client's custodial statements.

### **Other Fees and Expenses**

FPA may invest in closed-end funds, open-end funds, exchange traded funds (ETFs), exchange traded notes (ETNs), and other pooled investment vehicles on behalf of certain of its clients. When FPA invests client assets in such vehicles, unless otherwise agreed and where permitted by law,

the client will bear its proportionate share of fees and expenses as an investor in such vehicles in addition to FPA's management fees and performance-based compensation.

In addition, FPA has the authority to invest some clients' assets in the FPA Mutual Funds or FPA Private Funds to which FPA provides investment advisory services and receives advisory or other fees. It is the policy of FPA to adjust fees paid by clients in such circumstances by waiving all or a portion of the management fee at the level of either or both client(s). However, such clients may incur performance-based compensation at the level of each client, as set forth in the Governing Documents applicable to such clients. In instances where FPA charges performance-based compensation at more than one FPA Private Fund level, FPA will generally not charge such performance-based compensation in excess of the total percentage of performance-based compensation allowed at one fund level.

FPA's clients generally will incur brokerage and other transaction costs as set forth in each client's Governing Documents. For additional information about brokerage practices and transaction costs, please refer to Item 12.

FPA has the right to charge FPA Private Fund investors other fees and expenses disclosed in the applicable FPA Private Fund Governing Documents. These fees and expenses typically include all investment, administrative and operating expenses incurred by the FPA Private Funds on behalf of investors. These expenses include, but are not limited to: (1) brokerage commissions and other transaction charges, including clearing and settlement charges; expenses related to short sales, if applicable; interest; fees and expenses incurred in the borrowing and lending of securities; the costs implicit in repurchase and reverse repurchase agreements; custodial fees and expenses; tax and other reporting expenses; external legal, compliance of the general partner, administrative, accounting and audit fees and expenses; professional fees (including, without limitation, expenses of consultants, investment bankers, attorneys, accountants and other experts) relating to investment; fees relating to investment banking and other financial services, whether payable to parties affiliated with FPA or others; due diligence expenses, including travel, related to proposed investments or existing investments; governmental, registration, license and membership fees (including those payable to regulatory as well as self-regulatory organizations); errors and omissions insurance and directors and officers insurance for the general partner; and the costs and expenses related to the offer and sale of shares or interests, including travel; (2) taxes and other governmental charges; (3) all expenses incurred in connection with any threatened, pending or anticipated litigation, examination or proceeding; (4) all expenses incurred as a result of FPA Private Funds' obligations to indemnify certain persons against losses, liabilities and expenses incurred in connection with the performance of their duties on behalf of, or the provision of services to, such FPA Private Funds; (5) all expenses and fees of third-party valuation agents, if any; (6) all expenses and fees incurred in connection with any actual or proposed investment or other participation in, or any holding or disposition of any interest in, another investment entity, business entity or organization; and (7) all other expenses and liabilities incurred in connection with or arising out of FPA's business, including extraordinary or non-recurring charges.

For master/feeder arrangements, a feeder fund will typically bear a pro rata share of expenses associated with their respective master funds and certain expenses with respect to their own specific operations.

The FPA Multi-Advisor Strategy funds invest the majority of their assets through third party managers. Due to the fund-of-funds structure, the FPA fund will bear two layers of fees. In addition to the management fees, incentive allocations (as applicable) and other expenses that will be borne directly by the FPA fund, the FPA fund will bear similar fees and expenses at the underlying fund level.

Neither FPA nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

FPA manages multiple client accounts with different investment objectives and guidelines, and with different fee structures. FPA receives management fees for all clients. However, for the FPA Private Funds and certain SMA's, FPA receives both a management fee and performance-based compensation for its investment advisory services. Performance-based compensation creates an incentive for FPA to favor those accounts over management fee only accounts, or to make investments that are riskier or more speculative than would be the case in the absence of the performance-based compensation. In addition, FPA may invest the assets of certain clients bearing performance-based compensation into a different client bearing performance-based compensation. Except as otherwise stated in the applicable Governing Documents, FPA has no obligation to waive either of the performance-based compensations. This presents a conflict of interest as FPA has the incentive to invest a client's assets in FPA Private Funds in order to receive additional compensation attributable to the client's capital.

FPA has established procedures that seek to ensure that all clients and investors are treated fairly and equitably over time and to prevent conflicts from influencing the allocation of investment opportunities among clients.

As further discussed in Item 11, to mitigate potential conflicts of interest when managing performance-based compensation clients side-by-side with management fee only clients, FPA has developed a policy in which portfolio managers seek to allocate investment opportunities among eligible accounts on a pro rata basis if that is practical; or if a pro rata allocation is not practical, to allocate the investment opportunities among FPA advisory clients on a basis that over time is fair and equitable to each advisory client relative to other clients, taking into account relevant facts and circumstances, including, but not limited to:

- differences with respect to available capital and the size of a client;
- differences in investment objectives or current investment strategies;
- differences in risk profile at the time an opportunity becomes available;
- the nature of the security or the transaction including minimum investment amounts and the source of the opportunity; and
- existing or prior positions in an issuer/security.

While the procedures described above are intended to allocate investment opportunities among advisory clients on a basis that is fair and equitable to all clients over time, the procedures could in some circumstances preclude an advisory client from participating in an investment opportunity, or otherwise result in certain allocations that favor one client over another.

## **ITEM 7            TYPES OF CLIENTS**

FPA provides advisory services to clients on a discretionary basis consisting of its FPA Mutual Funds, FPA Private Funds, and SMAs. FPA's SMAs and FPA Private Funds investors include primarily state or municipal government entities; pension and profit-sharing plans; insurance companies, trusts, estates, charitable organizations, foundations, or endowments; corporations or business entities other than those previously referenced; and high net worth individuals. From time to time, FPA may also provide non-discretionary advisory services ("assets under advisement") to Unified Managed Accounts ("UMAs").

The minimum initial investment for each of the FPA Mutual Funds is \$1,500 with the exception of the FPA Flexible Fixed Income Fund and the FPA Queens Road Value Fund that each have a minimum initial investment of \$100,000. In addition, the FPA Crescent Fund Supra Institutional Class has a minimum initial investment of \$100,000,000, and the FPA Queens Road Small Cap Value Fund Institutional Class and Advisor Class have minimum initial investments of \$100,000 and \$50,000, respectively.

For the SMAs, FPA generally requires a minimum investment of \$10 million to \$50 million, dependent upon, among other things, the strategy for the particular SMA. Each of the FPA Private Funds generally has a minimum investment ranging from \$500,000 to \$2,500,000 per investor. FPA may waive these minimums at its discretion. Additional information about the minimum investments for each client and other investment qualifications and conditions are described in the applicable Governing Documents.

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

FPA seeks investment opportunities based primarily on a value investing style. FPA strives to generate competitive 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 a consistent, risk-adjusted and disciplined approach to long-term investing in individual securities with the objectives of achieving superior total returns for client portfolios over market cycles.

### **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 industry and trade related journals; websites; information provided by 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 typically considers the following, which are guidelines generally aimed at identifying undervalued or reasonably valued equity securities: (1) avoid high price to earnings ratios; (2) avoid 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. On the fixed income side, FPA looks for investments that, on an absolute return basis, adequately compensate investors for the possibility of permanent impairment of capital and short-term market-to-market risk. In doing so, FPA considers business or asset specific risks and macroeconomic risks.

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.

## **Investment Strategies**

Clients retain FPA to utilize one or more of the firm's fundamental, primarily value-oriented, investment strategies, including: Absolute Fixed Income, Contrarian Value, Contrarian Value Equity, Small-Cap Value, Core Equity, Large-Cap Value, Multi-Advisor, and Direct Lending.

**Absolute Fixed Income.** The strategy pursues a positive absolute return using investments in fixed income securities that focus on income, appreciation and capital preservation and adheres to the following principles: absolute return, long-term focus, alignment of interest, strict risk/reward parameters, independent decision making, and flexible mandate.

**Contrarian Value.** The strategy seeks to generate equity-like returns over the long-term, take less risk than the market and avoid permanent impairment of capital. The portfolio managers look for investments that are out-of-favor or misunderstood and focus on the following categories: long equity, short equity, credit, and other opportunistic investments (e.g., private placements). The strategy invests across the capital structure, geographies, industries, and market-caps. Additionally, the portfolio managers are willing to hold meaningful amounts of cash.

**Contrarian Value Equity.** The strategy seeks to generate market-beating returns while taking similar risk to the market over the long-term while avoiding the risk of the permanent impairment of capital. The strategy primarily invests in companies with a market cap greater than \$10 billion at time of purchase. The strategy is high-conviction, concentrated portfolio of approximately 20-40 stocks with a benchmark agnostic portfolio construction. The strategy has a long-term focus and expects to have multi-year average holding periods. The portfolio managers aim to identify absolute value opportunities across global markets (developed and emerging). Cash and cash

equivalents will typically not exceed 10% of the portfolio.

**Small-Cap Value.** The strategy seeks long-term growth through investing primarily in the equity securities (common stocks, preferred stocks, and convertible securities) of small capitalization U.S. companies. A small capitalization company is one with a market capitalization, at time of purchase, of \$5 billion or less. The strategy typically invests at least 80% of its net assets in equity securities of U.S. companies with small market capitalization.

**Large-Cap Value.** The strategy seeks long-term growth through investing primarily in equity securities (common stocks, preferred stocks, and convertible securities) of U.S. companies. The strategy pursues a value-oriented strategy. Investments are made based on their potential for capital growth without limitation in issuer market capitalization.

**Core Equity.** The strategy seeks long-term growth of capital by investing in quality companies at attractive valuations. The portfolio manager seeks to maintain a minimum of 80% of portfolio net assets in equity securities of U.S. companies. The strategy typically invests in companies with market capitalizations greater than \$2 billion at time of initial purchase and typically holds no more than 10% in cash or cash equivalents.

**Multi-Advisor Strategy.** The strategy seeks to achieve the objectives of capital preservation and steady growth of assets. The portfolio managers invest primarily in: (i) private funds, other pooled investment vehicles, or other accounts managed by a diversified group of third-party portfolio managers, and (ii) other FPA client accounts. The strategy focuses on investing with a diversified group of value-oriented external managers that have discretionary authority over certain of FPA clients' investments. The strategy includes both equity and credit-focused strategies. For the equity-focused strategy, the performance objective is to provide equity-like rates of return over full market cycles, after accounting for all fees, expenses and performance-based compensation, with substantially less volatility than exists in the stock market. Except with respect to certain clients that have a long-bias focus, the portfolio managers are not limited in the number of strategies in which they invest, which include long/short U.S. biased, long/short global biased, long/short opportunistic, distressed/high yield debt, long only equity and opportunistic strategies. For the credit-focused strategy, the primary performance objective is to provide investors with exposure to private credit strategies in order to seek to achieve income and long-term returns in excess of the public credit market with substantially less fundamental risk and volatility than exists in the public credit market. The portfolio managers expect to invest primarily in unaffiliated closed-ended, direct lending and other credit-oriented private investment funds and other accounts in an effort to maximize return and reduce risk.

**Direct Lending.** The strategy seeks to generate attractive risk-adjusted returns and current income by sourcing and structuring senior secured asset-based loans to lower and middle market companies. The strategy has an emphasis on public and private companies with loan sizes typically between \$20 million and \$100 million. The portfolio managers seek to structure loans that are highly collateralized and with strict covenant protections.

## **Principal Risks**

While FPA seeks to manage accounts so that the 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. The following summary 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. Existing and prospective clients are encouraged to consult their own financial advisors and legal and tax professionals, and the investment guidelines, prospectuses or offering memorandum and other Governing Documents specific to each strategy before considering any services of FPA. In addition, due to the ever-changing nature of the markets, strategies may be subject to additional risk factors not mentioned below.

## **General Risks**

*Possibility of Losses:* An investment in one of FPA's strategies is speculative and involves a high degree of risk, including the risk that the entire amount invested may be lost. No guarantee or representation can be made that an FPA client's investment program, including, without limitation, such client's investment objective, diversification strategies or risk monitoring goals, will be successful. The value of interests in the FPA Mutual Funds, FPA Private Funds, or any SMAs will fluctuate based upon a multitude of factors, including the financial condition, results of operations and prospects of the issuers of the underlying securities; governmental intervention; market conditions; and local, regional, national and global economic conditions. Therefore, investors may lose all or a portion of their principal invested if the trading strategies are not successful.

*Dependence on Key Personnel:* FPA depends on the diligence, skill, judgment, business contacts and personal reputations of certain key personnel at FPA. FPA's future success will depend upon the ability to retain and motivate senior professionals and other key personnel and the ability to attract and recruit additional qualified personnel. These individuals possess substantial experience and expertise in investing, are responsible for determining client portfolio investments, and have significant relationships with market participants that are the source of many of FPA's investment opportunities. The departure for any reason of any of one or more of FPA's investment professionals could have a material adverse effect on our ability to achieve our investment objectives. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of FPA's investment professionals could be replaced.

*Sub-Adviser Risk:* FPA may utilize unaffiliated investment advisers ("Sub-Advisers") for the purpose of executing particular strategies. In general, the methods of analysis and investment strategies undertaken on behalf of an SMA, FPA Private Fund or FPA Mutual Fund (collectively, "FPA Client Accounts") will be subject to substantially similar material risks whether performed by FPA or a Sub-Adviser. To the extent that FPA utilizes Sub-Advisers to effectuate the investment objectives of FPA Client Accounts, the Sub-Adviser, subject to oversight by FPA, would be involved in the day-to-day management of such FPA Client Account(s) and such FPA Client Account(s) will be subject to the possible defaults or misconduct of such Sub-Advisers. Conversely, in some circumstances, regulatory restrictions, conflicts of interest or other considerations may cause FPA, in its oversight role, to intervene with respect to a Sub-Adviser's day-to-day management of an FPA Client Account and require certain alterations to the Sub-Adviser's proposed investment activities with respect to such FPA Client Account. Although in some cases FPA may pay a Sub-Adviser fee from fees that it receives from an FPA Client Account, in other cases an FPA Client Account may pay fees directly to the Sub-Adviser as well as to FPA.



If a Sub-Adviser sustains a substantial loss of revenue or other material financial impact, these losses may impair the Sub-Adviser's ability to retain employees, provide the same level of service to FPA Client Accounts, and continue operations. The loss of the services of a Sub-Adviser or their key personnel could have a material adverse effect on the related FPA Client Accounts.

FPA generally has the right to terminate a Sub-Adviser or a Sub-Adviser may terminate FPA. Therefore, FPA may terminate a Sub-Adviser, and vice versa, even when a client may not wish either party to do so. However, in certain cases FPA may have an economic or other relationship with a Sub-Adviser which may create a disincentive for FPA to terminate or recommend the termination of a Sub-Adviser (or, similarly, for the Sub-Adviser to require FPA to resign), such as the performance fees and transaction fees related to a relevant sub-advised FPA Client Account as discussed above.

*Risk of Failing to Adequately Address Conflicts of Interest:* As FPA has expanded its investment operations, it increasingly confronts potential conflicts of interest relating to investment activities. For example, FPA's strategies and clients within each strategy may have overlapping investment objectives and interests, and different compensation structures. Potential conflicts may arise with respect to decisions regarding how to allocate investment opportunities among other possible conflicts. While FPA attempts to identify, mitigate and disclose all materials conflicts, any failure to appropriately address material conflicts of interest could expose FPA to regulatory and other risks that could adversely affect FPA's business.

*Risk of Failing to Timely Execute Orders or Achieve Best Execution:* Certain of FPA's investment strategies depend significantly on its ability to timely trade securities and achieve best execution for client portfolios. Trading orders may not be executed in a timely and efficient manner due to various circumstances, including, for example, systems failures attributable to FPA, counterparties, brokers, dealers, agents or other service providers. In addition, FPA's trading process relies on electronic execution systems (and may rely on new systems and technology in the future), and such systems may be subject to certain systemic limitations or mistakes, causing the interruption or delay of trading orders made for client portfolios.

*Risk That Significant Cash Positions Could Affect Performance:* FPA generally does not use a formal asset allocation model to specify the percentage of client portfolios that must be invested in any particular asset class or category of securities. Rather, FPA's asset allocation for each client portfolio is generally a function of the portfolio's potential risk and reward compared with available opportunities in the marketplace. Consequently, FPA client portfolios may at any given time hold significant cash balances for an extended period of time, which could have a negative impact on the performance of those client portfolios.

*Risks Associated with Value Investing:* Value stocks 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. FPA's value discipline may result in a portfolio of stocks that differs materially from an illustrative index.

*Investment and Due Diligence Process:* Before making investments, FPA will generally conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances

applicable to each investment. When conducting due diligence, FPA may be required to evaluate important and complex business, financial, tax, accounting and legal issues. When conducting due diligence and making an assessment regarding an investment, FPA will rely on the resources reasonably available to it, which in some circumstances whether or not known to FPA at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

*Fundamental Analysis:* FPA's trading decisions will be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. Fundamental market information is subject to interpretation. To the extent that FPA misinterprets the meaning of certain data, FPA clients may incur losses.

*Leverage:* FPA may use leverage with respect to certain FPA Private Funds and SMAs. If utilized, leverage will allow FPA to make additional investments, thereby increasing a client's exposure to assets, such that such client's total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of such client's portfolio. The effect of the use of leverage by a client in a market that moves adversely to their investments could result in substantial losses to such client, which would be greater than if such client was not leveraged. The instruments and borrowings that may be utilized by FPA to leverage investments may be collateralized by all or a portion of the applicable client's portfolio. Accordingly, if FPA utilizes leverage with respect to a client, FPA may pledge such client's securities in order to borrow or otherwise obtain leverage for investment or other purposes, as further discussed in the applicable client's Governing Documents.

*Cybersecurity:* With the increased use of technologies such as the Internet and the dependence on computer systems to perform business and operational functions, portfolios (such as FPA's clients) and their service providers may be prone to operational and information security risks resulting from cyber-attacks and/or technological malfunctions. In general, cyber-attacks are deliberate, but unintentional events may have similar effects. Cyber-attacks include, among others, stealing or corrupting data maintained online or digitally, preventing legitimate users from accessing information or services on a website, releasing confidential information without authorization, and causing operational disruption. Successful cyber-attacks against, or security breakdowns of, an FPA client, FPA, or a custodian, or other affiliated or third-party service provider may adversely affect FPA's clients and/or investors. For instance, cyber-attacks may interfere with the processing of transactions, affect FPA's or a client's ability to calculate net asset value, cause the release of private investor information or confidential client information, impede trading, cause reputational damage, and subject FPA or the client to regulatory fines, penalties or financial losses, reimbursement or other compensation costs, and additional compliance costs. Cyber-attacks may render records of FPA client assets and transactions, ownership of the client's shares or interests, and other data integral to the functioning of the client inaccessible or inaccurate or incomplete. FPA may also incur substantial costs for cyber security risk management in order to prevent cyber incidents in the future. FPA's clients and investors could be negatively impacted as a result. While FPA has established business continuity plans and systems designed to minimize the risk of cyber-attacks through the use of technology, processes and controls, there are inherent limitations in such plans and systems, including the possibility that certain risks have not been identified given the evolving nature of these threats. FPA relies on third-party service providers for many of its day-

to-day operations, and will be subject to the risk that the protections and protocols implemented by those service providers will be ineffective to protect FPA from cyber-attack.

*Shareholder and Creditor Activism Risk:* FPA may engage in activist strategies or otherwise play a more activist role when, in FPA's view, such engagement may protect or enhance shareholder value within a client account. Although FPA generally does not intend to invest in companies for the purpose of effecting change or influencing or controlling management itself, FPA may invest in companies that FPA believes have potential for capital appreciation resulting from such changes. Activism with respect to an equity stake can take any of several forms, up to and including, proxy solicitations or contests, publicity campaigns, shareholder proposals, negotiations with management, and other techniques for effecting change with respect to the issuers in which FPA invests on behalf of its clients. Activism with respect to a debt stake can include, but is not limited to, electing to form or participating in formal or informal creditor committees to negotiate with or participate in the restructuring or workout of issuers of securities held by an FPA client account. Such activist strategies may cause the FPA client accounts to incur expenses, which may include, but are not limited to, fees of attorneys and proxy solicitors and printing, publishing or mailing costs. There is no guarantee that FPA will be successful in implementing such activist strategies on behalf of its clients. FPA's evaluation of such issuers or such objectives may prove incorrect, or their efforts with respect to issuers in which the FPA client accounts invest may not be successful, or even if successful, may have unintended affects or cause the FPA client accounts' investment to lose value. There may also be instances where FPA obtains material, non-public information with respect to such issuers, and FPA clients will become subject to trading restrictions pursuant to the internal trading policies of such companies or as a result of applicable law, regulations or internal compliance policies. Such restrictions may have an adverse effect on the FPA client accounts. Participation on creditor committees may also expose FPA client accounts to potential liabilities under the federal bankruptcy laws or other laws governing the rights of creditors and debtors. It is also possible that FPA may become involved in litigation, which entails expense and the possibility of claims for damages against the FPA client accounts.

*Business Continuity and Disaster Recovery Risk:* FPA's business operations may be vulnerable to disruption in the case of catastrophic events such as fires, natural disaster, terrorist attacks, pandemic or other circumstances resulting in property damage, network interruption and/or prolong power outages. Although FPA has implemented, or expects to implement, measures to manage risks relating to these types of events, there can be no assurances that all contingencies can be planned for. These risks of loss can be substantial and could have a material adverse effect on FPA and investments therein.

*Global Market Risk:* Social, political, economic and other conditions and events (such as inflation (or expectations for inflation), interest rates, global demand for particular products or resources, natural disasters, epidemics and pandemics, terrorism, conflicts, social unrest, regulatory events and governmental or quasi-governmental actions) may occur that have significant impacts on issuers, industries, governments and other systems, including the financial markets. As global systems, economies and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. Events that occur in one country, region or financial market will, more frequently, adversely impact issuers in other countries, regions or markets. These impacts can be exacerbated by failures of governments and

societies to adequately respond to an emerging event or threat. Clients will be negatively impacted if the value of their portfolio holdings decreases as a result of such events, if these events adversely impact the operations and effectiveness of FPA or key service providers or if these events disrupt systems and processes necessary or beneficial to the management of accounts. In particular, many countries have experienced outbreaks of infectious illnesses in recent decades, including swine flu, avian influenza, SARS and, more recently, COVID-19. The global outbreak of COVID-19 in early 2020 has resulted in various disruptions, including travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, financial markets and the economies of certain nations and individual issuers, any of which may negatively impact the Fund and its holdings. Similar consequences could arise as a result of the spread of other infectious diseases.

*Systemic Risk:* Credit risk may arise through a default by or because of one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by or because of one institution may cause a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which FPA interacts on behalf of clients. A systemic failure could have material adverse consequences on FPA, FPA clients, and on the markets for the securities in which FPA seeks to invest on behalf of its clients.

*Increased Regulatory Oversight:* Increased regulation and regulatory oversight of investment advisers may impose administrative burdens on FPA, including, without limitation, responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert FPA’s time, attention and resources from portfolio management activities. Such regulatory inquiries are generally confidential in nature, may involve a review of an individual’s or a firm’s activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

*Discontinuation of LIBOR:* Certain instruments in which FPA clients may invest may rely in some fashion upon LIBOR (London Interbank Offered Rate). LIBOR is an average interest rate, determined by the ICE Benchmark Administration that banks charge one another for the use of short-term money. The United Kingdom’s Financial Conduct Authority, which regulates LIBOR, has announced plans to phase out the use of LIBOR by the end of 2021. There remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate (e.g., the Secured Overnight Financing Rate, which is intended to replace U.S. dollar LIBOR and measures the cost of overnight borrowings through repurchase agreement transactions collateralized with U.S. Treasury securities). Any potential effects of the transition away from LIBOR on FPA clients or on certain instruments in which an FPA client may invest can be difficult to ascertain, and they may vary depending on factors that include, but are not limited to: (i) existing fallback or termination provisions in individual contracts and (ii) whether, how, and when industry participants develop and adopt new reference rates and fallbacks for both legacy and new products and instruments.

## Equity Risks

*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, American Depositary Receipts ("ADRs"), and/or Global Depositary Receipts ("GDRs") 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, actions by various government agencies, such as the Federal Reserve Board, the general outlook for corporate earnings, interest rates, investor sentiment or domestic and international political events. 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.

*Small-Cap and Mid-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 small and mid-cap companies tend to fluctuate more widely than those of larger, more established companies. A company may have a small or mid-size capitalization because it is new or has recently gone public, or because it operates in a new industry or regional market. Small and mid-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. Consequently, FPA may be required to dispose of such securities over a longer (and potentially less favorable) period of time than is required to dispose of the securities of larger, more established companies. 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. Investments in small capitalization companies may also be more difficult to value than other types of securities because of the foregoing considerations, including the lower trading volumes. Because certain securities may have little or no coverage by third party research providers, FPA clients will be relying on FPA's research. There can be no assurance that FPA will be able to predict accurately these price movements.

*Value Investing Risks:* Certain of FPA's investment strategies focus on investing in companies that FPA believes are undervalued. Opportunities in undervalued securities arise from market inefficiencies or due to a lack of wide recognition of the potential impact (positive or negative) that specific events or trends may have on the value of a security. The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. While investments in undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. In addition, value style investing may fall out of favor and underperform growth or other style investing during given periods.

FPA's value discipline often results in a portfolio of stocks that may differ materially from an illustrative index.

*Concentration Risk:* Certain FPA clients or strategies may hold concentrated positions in a small number of companies. 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 clients in the strategy may be more susceptible to losses than if one invested in more companies.

*American Depositary Receipts and Global Depositary Receipts:* FPA may invest certain client's assets in American Depositary Receipts ("ADRs") and/or Global Depositary Receipts ("GDRs"). ADRs and GDRs are negotiable receipts similar to stock certificates issued by a depositary bank. The receipts evidence depositary securities, which in turn evidence underlying securities of a foreign issuer deposited with a custodian bank in the foreign issuer's home country. Investing in ADRs and GDRs involves a variety of material risks associated with international investing or investing in instruments where the underlying securities are of a foreign issuer denominated in foreign currencies. These risks include changes in exchange rates and exchange control regulations, political and social instabilities that influence foreign markets, imposition of taxes in the foreign jurisdiction, less liquid markets and less available information than is generally the case in more developed economies and markets, higher transaction costs, foreign government restrictions, greater price volatility, inflation risks in foreign countries that may be more, or less, prone to inflation than more developed economies, difficulty in enforcing contractual obligations in foreign jurisdictions, reliance on foreign legal remedies, lack of uniform accounting and auditing standards and different market operations in foreign jurisdictions. Accordingly, these systemic and systematic risks may adversely affect the performance of the underlying securities of a foreign issuer.

## **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 fixed-income 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. To the extent permitted under a client's Governing Documents, FPA may attempt to minimize the exposure of such client's portfolio to interest rate changes through the use of interest rate swaps, interest rate futures, interest rate options and/or other financial instruments. However, there can be no guarantee that FPA will be successful in fully mitigating the impact of interest rate changes on such client's portfolios. To the extent that interest rate assumptions underlie the thesis of a particular position, fluctuations in interest rates could invalidate those underlying assumptions.

*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 is 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. In addition, adverse publicity and investor perceptions about lower rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

*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.

*Odd Lot Risk:* When a client instructs FPA to sell securities, FPA may need to sell small positions or odd lot sizes and/or be unable to aggregate a client's order with orders of other clients. There are price and liquidity risks associated with small odd lot transactions that would not otherwise exist if FPA were able to sell larger positions of the security. This will be true even if the amount of securities the client originally purchased was an institutional sized position or round lot that has diminished in size over time.

*Corporate Debt Securities:* FPA may invest in corporate bonds, bank debt, notes and commercial paper of varying maturities and may invest in domestic bonds, bank debt and notes and those issued by non-U.S. corporations and governments. Issuers of these securities have a contractual obligation to pay interest at a specified rate on specified date and to repay principal on a specified maturity date, and may have provisions that allow the issuer to redeem or "call" the security before its maturity.

*Distressed Investments:* FPA may invest in securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or facing extraordinary liabilities, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and a bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. There is no assurance that FPA will correctly evaluate the assets underlying any distressed investment or the prospects for a successful reorganization. In such reorganizations, any participating FPA client will take the risk that the reorganization either will be unsuccessful or delayed or will result in a distribution of cash or other consideration worth less than what such client paid for its position. Where there are multiple classes of creditors (e.g., secured vs. unsecured creditors, senior vs. subordinated creditors), there may be significant inter-creditor conflicts. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that of the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims.

*Direct Lending Risks.* Certain of FPA's strategies may include directly originated senior secured loans, including unitranche loans, of performing, high quality middle market companies ("Senior Capital Debt Securities"). Senior Capital Debt Securities are subject to liquidity, market value, credit, interest rate, reinvestment, default and other risks. The market for Senior Capital Debt Securities has experienced periods of volatility in the supply and demand for such loans, resulting in volatility in, among other things, spreads, interest rate floors, purchase price discounts,



leverage, covenants, structure, and other terms. Additionally, Senior Capital Debt Securities generally have significant liquidity and market value risks since they are not generally traded in organized markets, but are traded (if at all) by banks and other institutional investors in privately negotiated transactions. Because loans are privately syndicated and loan agreements are privately negotiated and customized, loans are not purchased or sold as easily as publicly traded securities. In addition, historically the trading volume in the loan market, especially in the middle market, has been small relative to the high-yield debt securities market.

The obligors of the Senior Capital Debt Securities will primarily be privately owned middle market businesses. There is generally no publicly available information about these businesses. Numerous factors may affect an obligor's ability to repay its related obligations, including the failure to meet its business plan, a downturn in its industry or continuing negative economic conditions. A deterioration in an obligor's financial condition and prospects may be accompanied by deterioration in the collateral securing the Senior Capital Debt Securities. Such deterioration might impair the ability of such obligor to obtain refinancing or force it to seek restructuring of the Senior Capital Debt Security.

There can be no assurance as to the levels of defaults or the amount or timing of recoveries.

*Investment in Middle Market Companies.* Investing in middle market companies involves a number of significant risks. Such companies may: (i) have limited financial resources and may be unable to meet their obligations under their debt securities, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of realizing any guarantees that may have been obtained in connection with its investment; (ii) typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns; (iii) are more likely to depend on the management talents and efforts of a small group of persons such that, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on the stability of the company and their ability to repay their debts; (iv) generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and (v) may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

## **Derivative Risks**

*Derivative Instruments:* FPA may invest certain client's assets in derivative instruments, which are be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. In addition, even if FPA does not invest a client's assets in derivative instruments, such client may obtain certain derivative instruments as a result of a merger, share-buyback, corporate action or bankruptcy. Certain derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives is subject to change. Special risks may apply in the future

that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available.

## **International Risks**

*Non-U.S. Securities Risk:* The economies of some non-U.S. markets often do not compare favorably with that of the United States 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 confiscatory, punitive, withholding or other 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 United States or otherwise adversely affect the management of the portfolio. Other non-U.S. 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 countries are less extensive than those available to investors in the United States. Many foreign governments supervise and regulate stock exchanges, brokers and the sale of securities less than the U.S. government. 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 United States. 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 United States. 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.

*Certain Risks of Holding Fund Assets Outside the United States:* Non-U.S. securities in which a client invests are generally held outside the United States in foreign banks and securities depositories. A client's custodian is its "foreign custody manager." The "foreign custody manager" is responsible for determining that a client's directly-held foreign assets will be subject to reasonable care, based on standards applicable to custodians in relevant foreign markets. However, certain foreign banks and securities depositories may be recently organized or new to the foreign custody business. They may also have operations subject to limited or

no regulatory oversight. Also, the laws of certain countries may put limits on a client's ability to recover its assets if a foreign bank or depository or issuer of a security or an agent of any of the foregoing goes bankrupt. In addition, it likely will be more expensive for a client to buy, sell and hold securities, or increase or decrease exposures thereto, in certain foreign markets than it is in the U.S. market due to higher brokerage, transaction, custody and/or other costs. The increased expense of investing in foreign markets reduces the amount a client can earn on its investments. Settlement and clearance procedures in certain foreign markets differ significantly from those in the United States. Foreign settlement and clearance procedures and trade regulations also may involve certain risks (such as delays in payment for or delivery of securities) not typically involved with the settlement of U.S. investments. Communications between the United States and emerging market countries may be unreliable, increasing the risk of delayed settlements or losses of security certificates. Settlements in certain foreign countries at times have not kept pace with the number of securities transactions. The problems may make it difficult for the client to carry out transactions. If a client cannot settle or is delayed in settling a purchase of securities, a client may miss attractive investment opportunities, and certain of its assets may be uninvested with no return earned thereon for some period. If a client cannot settle or is delayed in settling a sale of securities, directly or indirectly, it may lose money if the value of the security then declines, or if it has contracted to sell the security to another party, a client could be liable to that party for any losses incurred.

*Currency Risk:* FPA may invest a portion of certain clients' assets in securities denominated in non-U.S. currency and in other financial instruments, the price of which will be determined by reference to those currencies. Investments that are denominated in non-U.S. currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Dramatic fluctuations in the value of a country's currency could have an adverse impact on the profitability of such investments. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. To the extent that the U.S. Dollar appreciates relative to these currencies, the U.S. Dollar value of these investments is likely to be adversely affected. In addition, if the currency in which a client receives dividends, interest or other types of payments (such as liquidating payments) declines in value against the U.S. Dollar before such payments are distributed, the U.S. Dollar value of these payments could be adversely affected if not sufficiently hedged. Furthermore, the ability of FPA clients and companies in which they invest to convert freely between the U.S. Dollar and other currencies may be restricted or limited and, in a number of instances, exchange rates and currency conversion are controlled directly or indirectly by governments or related entities. Inflation in the countries where FPA makes investments may adversely affect such investments' results and value.

To the extent permitted under the applicable Governing Documents, FPA may employ hedging techniques to minimize these risks, but it is not required to do so and there can be no assurance that such strategies will be effective. In particular, FPA may seek to offset the risks associated with such exposure, in part, through foreign exchange transactions. The markets in which foreign exchange transactions are effected are highly volatile, highly specialized and highly technical. Significant changes, including changes in liquidity and prices, can occur in such markets within very short periods of time, often within minutes. Foreign exchange trading risks include, but are not limited to, exchange rate risk, interest rate risk and potential interference by foreign

governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currency.

*Emerging / Frontier Market Risk:* Investments in issuers in developing, emerging, or frontier market countries involve increased exposure to changes in economic, social and political factors. The economies of most emerging / frontier 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 / frontier market countries often suffer from currency devaluation and higher rates of inflation. Other characteristics of emerging markets that may affect investments include certain national policies that may restrict investment by foreigners in issuers or industries deemed sensitive to relevant national interests and the absence of developed structures governing private and foreign investments and private property. Although the legal systems in emerging market countries now typically recognize basic commercial relationships and rights, they still typically lack the extensive body of law and practice normally encountered in business environments within the United States. Laws and regulations in emerging market countries affecting U.S. business and investment, particularly those involving taxation, foreign investment and trade, can change quickly and unpredictably in a manner far more volatile than in the United States or other developed market economies. Additionally, attempts at judicial enforcement of existing laws, judgments or arbitral awards will likely encounter significant delay and difficulty, and courts might not be totally impartial in adjudicating disputes between foreigners and local persons or companies. Due to these risks, securities issued in these countries may be more volatile, less liquid, and harder to value than securities issued in more developed countries.

## **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**

FPA, or an affiliate, acts as general partner or managing member to certain of the FPA Private Funds. Certain employees of FPA may serve on the board or advisory committee of issuers in whose securities or other assets FPA clients may invest. As a result, such employees may possess information relating to issuers that is not known to the individuals at FPA responsible for monitoring the client's portfolio.

The firm is exempt from registration with the Commodity Futures Trading Commission ("CFTC") as a commodity pool operator because clients are being operated pursuant to Rules 4.13(a)(3) or 4.5 exemption from registration under CFTC Regulation.

From time to time, FPA enters into written solicitation agreements for the referral of other investment advisor's investment advisory services under which FPA introduces new clients to such

other investment advisor and receives a referral fee. When entering such agreement, FPA complies with all applicable securities requirements including Rule 206(4)-3 under the Advisers Act. Generally, the fee is based on a percentage of the investment advisory fees and/or performance fees earned on assets invested with the other investment advisor or a flat fee at the commencement of the relationship.

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

FPA has adopted and implemented a Code of Ethics (the “Code”) in compliance with SEC Rule 204A-1 under the Advisers Act and Rule 17j-1 under the Company Act. The Code sets forth the standards of conduct expected of all employees, directors, and officers of the firm, as well as certain consultants employed by FPA from time to time (“Employees”).

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 Code permits Employees to invest in securities for their own accounts, but places substantive and procedural restrictions on their trading activities, requires periodic reporting of personal securities transactions except for transactions in certain securities, including direct obligations of the government of the United States, shares issued by money market funds and interests in 529 college savings plans, and requires employees to pre-clear all non-exempted transactions.

Among the restrictions on Employee trading activities is prohibition against purchasing securities (with certain limited exceptions) that are held in any client account or are under active consideration for purchase or sale by any client account. Included in this prohibition are all equivalent and/or related securities of the same issuer. In addition, all Employees are prohibited 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. Additional restrictions relating to short-term trading and purchases of initial public offerings are also defined in the Code and applicable to all Employees.

Employees are required to certify they have read and will comply with the Code upon commencement of employment and annually thereafter. In addition, Employees are subject to certain periodic reporting requirements. Employee reporting and trading, as noted above, is monitored for adherence to the Code and any Employee who violates the Code is subject to remedial actions.

A copy of FPA’s Code is available upon request by contacting FPA’s Chief Compliance Officer in writing at:

First Pacific Advisors, LP  
Attention: Chief Compliance Officer  
11601 Wilshire Boulevard, Suite 1200  
Los Angeles, CA 90025

## **Participation or Interest in Client Transactions**

From time to time Employees invest in the FPA Private Funds or the FPA Mutual Funds, whether directly or through proprietary accounts, including seed capital accounts, established by FPA. Such investments from time to time will represent all, or a significant percentage, of the FPA Private Fund's or proprietary account's assets. Participating Employees may be in possession of information relating to an FPA Private Fund or an FPA Mutual Fund in which they participate as well as the portfolio of such fund, which is not available to other investors and prospective investors. It is expected that the size and nature of Employee's investments in FPA clients will change over time without notice to such clients' investors.

FPA and/or FPA personnel may have relationships with financial institutions, service providers, third party fund managers, and other market participants, (collectively, "market participants"). These market participants and/or their personnel may invest with or provide services to FPA or its clients. Additionally, FPA's clients may invest in third party private funds or issuers that are managed by or otherwise related to such market participant(s). While these relationships could potentially create a conflict of interest, FPA seeks to make investment decisions on the basis of the best interest of each client. In addition, FPA generally maintains documentation to support the rationale behind such investment decisions, and selects service providers to the firm and its clients based on the quality of service provided and not based on relationships.

FPA also has a financial interest in the FPA Private Funds and the FPA Mutual Funds, including but not limited to the receipt of investment management fees and/or certain performance-based compensation. As such, FPA has a financial incentive to recommend the FPA Private Funds and/or the FPA Mutual Funds that would produce greater compensation and profit to FPA, and indirectly, to Employees involved in decision-making for these accounts. Furthermore, FPA Private Funds and proprietary accounts often invest in the same securities and trade alongside other client accounts. This creates a conflict if FPA were to favor such accounts in the allocation of investment opportunities. FPA maintains policies and procedures that seek to treat all clients, including FPA Private Funds and proprietary accounts, fairly and equitably over time when aggregating and allocating investment opportunities. With respect to the Unified Managed Accounts, FPA typically provides such trading advice after its discretionary clients have been allocated their investment opportunities.

Although some Employees maintain a material position or percentage interest in FPA Private Funds, and FPA's interests may represent all or a significant percentage of its proprietary accounts or seed accounts, the restrictions and/or prohibitions on securities transactions applicable to Employees under the Code do not apply to these funds or accounts. Instead, to address any conflict created or mitigate any associated risk under these circumstances, FPA periodically reviews allocations of investment opportunities and sequencing of transactions across all accounts and compares the performance of such accounts to other client accounts to detect any favoritism.

FPA provides investment advisory services to various clients that at times will differ from the advice given to, or the timing and nature of the actions taken with respect to, any one account, including proprietary or personal accounts, depending upon a variety of factors, such as the risk-return profile of the accounts, the accounts' objectives (whether considered solely in light of the specific investment under consideration or in the context of the account's overall holding), the liquidity

requirements of the accounts, tax consequences, regulatory restrictions, the need to re-size risk in the accounts' portfolios, redemptions/withdrawals from the accounts and anticipated future contributions into the accounts, potential of de minimis or "odd lot" allocation, availability of leverage and any requirements or other terms of any existing leverage facilities, the nature and extent of the involvement in the transaction on the part of the respective FPA teams of investment professionals associated with the accounts, and other considerations deemed relevant by FPA pursuant to its investment discretion as discussed in Item 16. Further, factors such as market impact or liquidity constraints could also result in one or more clients receiving less favorable trading results if FPA were to implement an investment decision ahead of or contemporaneously with similar decisions for one set of clients over other clients. As set forth above, FPA maintains policies and procedures reasonably designed to seek to ensure that all clients are treated fairly and equitably over time when aggregating and allocating investment opportunities to the extent investment decisions are made concurrently.

FPA also has no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to, an FPA client solely because FPA purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to a different client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practicable or desirable for such client.

Different account guidelines and/or differences within investment strategies may lead to the use of different investment practices for portfolios with a similar investment strategy. FPA will not necessarily purchase or sell the same securities at the same time, in the same direction, or in the same proportionate amounts for all eligible accounts, particularly if different accounts have materially different amounts of capital under management, different amounts of investable cash available, different strategies, and/or different risk tolerances. Conflicts also may arise where there is limited opportunity to sell an investment held by multiple accounts. As a result, although FPA manages numerous accounts and/or portfolios with similar or identical investment objectives, or may manage accounts with different objectives that trade in the same securities, the portfolio decisions relating to these accounts, and the performance resulting from such decisions, will differ from account to account.

In the event that FPA effects rebalancing or internal cross transactions among two or more client accounts, it will only do so if FPA determines such transactions to be in the best interest of all clients involved, subject to limits imposed by ERISA and the Company Act. FPA recognizes the conflicts of interest that cross trades or principal trades may create. To mitigate the conflicts of interest, FPA will take steps to ensure that the crossing price in any such transaction is fair to both sides of the transactions, does not disadvantage any one client over the other client, and complies with applicable law. FPA generally intends to execute cross trades, if at all, with the assistance of an unaffiliated broker-dealer or custodian. Alternatively, a cross transaction between two FPA clients may occur as an "internal cross," where FPA instructs the custodian for the account(s) to book the transaction at the price determined in accordance with FPA's valuation policies and procedures. If FPA effects an internal cross, FPA will not receive any compensation in connection with the completion of the transaction. Prior to affecting such transactions, approval from FPA Compliance must be received, subject to the oversight of the board of directors/trustees, as applicable. To the extent that FPA controlling persons own more than a 25% interest in any one or more of the client accounts, the cross transaction will be deemed to be principal transactions

and FPA will comply with the principal transaction provisions of the Advisers Act. Principal transactions will not be consummated when the transaction involves an ERISA client or a client subject to the Company Act. Where required by applicable law or in other appropriate circumstances as determined by FPA, certain FPA clients' Governing Documents authorize FPA to appoint an independent representative of such clients (including an advisory committee consisting of representatives of certain investors in the clients or third parties) to consent on behalf of the clients to transactions in which participating accounts may have divergent interests.

*Management of Multiple Accounts:* Each of the portfolio managers is responsible for managing multiple accounts, including FPA Mutual Funds, FPA Private Funds, SMAs, and their own accounts, as applicable. From time to time, a potential conflict of interest will arise as a result of the portfolio manager's management of a number of accounts (including proprietary accounts) with similar investment strategies. Often, an investment opportunity may be suitable for a number of clients, but may not be available in sufficient quantities for all eligible accounts to participate fully. FPA has adopted policies and procedures reasonably designed to allocate investment opportunities on a fair and equitable basis over time.

*Performance-based compensation arrangements:* FPA may advise certain accounts with respect to which the advisory fee or incentive allocation is based entirely or partially on performance. In addition, certain portfolio managers have investments in FPA Private Funds that have such incentive compensation arrangements. Performance-based compensation arrangements create a conflict of interest for the portfolio manager and for FPA in that the portfolio manager and FPA have an incentive to allocate the investment and trade opportunities that s/he or they believe might be the most profitable to the accounts with performance-based compensation instead of allocating them to another account. FPA has adopted policies and procedures reasonably designed to allocate investment and trade opportunities between the FPA Mutual Funds, FPA Private Funds and SMAs on a fair and equitable basis over time.

*Material Non-Public Information:* FPA may come into possession of material non-public information with respect to an issuer. Should this occur, FPA would be restricted from buying or selling securities, derivatives or loans (in certain cases) of the issuer on behalf of a client, or personally, until such time as the information becomes public or is no longer deemed material. FPA may establish information barriers such that such information will be disseminated to FPA personnel responsible for the affairs of clients on a need-to-know basis only, and accordingly, FPA may not be free to act upon such information on behalf of clients. Due to these restrictions, FPA may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

*Capital Structure:* Conflicts potentially limiting client investment opportunities also arise when clients invest in different parts of an issuer's capital structure, such as when an FPA client owns senior debt obligations of an issuer and other clients own junior tranches of the same issuer. In these circumstances, decisions over whether to trigger an event of default, over the terms of any workout, or how to exit an investment often result in conflicts of interest. To minimize conflicts, a portfolio manager may avoid certain investment opportunities that would potentially give rise to conflicts with other clients or FPA may create internal procedures designed to minimize such conflicts, which could have the effect of limiting a client's investment. Moreover, an FPA client may invest in a transaction in which one or more FPA clients are expected to participate, or already



have made or will seek to make, an investment. Such other clients may have conflicting interests and objectives in connection with such investments, including, for example and without limitation, with respect to views on the operations or activities of the issuer involved, the targeted returns from the investment, and the timeframe for, and method of, exiting the investment. When making investment decisions where a conflict of interest may arise, FPA will endeavor to act in a fair and equitable manner among client accounts; however, in certain instances the resolution of the conflict may result in FPA acting on behalf of one account in a manner that may not be in the best interest, or may be opposed to the best interest, of a different account.

*Non-Negotiated Private Placements.* Due to regulatory restrictions that apply to FPA in managing its FPA Mutual Funds alongside FPA Private Funds and SMAs, there are certain private placement transactions that if negotiated by FPA would not be eligible to be invested in across all FPA clients. Accordingly, FPA may either seek to not engage in a negotiated private placement to allow for a broader investment allocation, or if it does engage in such negotiation, allocate such investment opportunity either solely to the FPA Mutual Funds and SMAs or to the FPA Private Funds, as appropriate. In certain circumstances, where both an FPA Mutual Fund and an FPA Private Fund wish to make similar investments in negotiated private placements, FPA may allocate such investments on a rotational basis between accounts if FPA believes that regulatory rules require such modification of its standard allocation policy. FPA will seek to treat such clients participating in the private placement fair and equitably over time.

*Co-Investments.* FPA clients may, from time to time, be offered co-investment opportunities in connection with such FPA clients' underlying fund investments. Notwithstanding the offered co-investment opportunity being appropriate for a number of FPA clients, such investment opportunity may not be large enough for such FPA clients to participate pro-rata based on their participation percentage in the underlying fund investment. In such circumstances, FPA may allocate such co-investment opportunity to FPA clients in manner that FPA determines, in its sole discretion, would result in a fair and equitable allocation to such clients over time.

*Seed Investors:* Employees of FPA and advisory clients sometimes provide initial funding to or otherwise invest in a new fund. FPA faces a conflict if an account it advises is invested in the fund and that account's interests diverge from those of the fund. When an Employee or an advisory client invests in the fund, it may do so with the intention of redeeming all or part of its interest in the fund in the future or when it deems that sufficient additional capital has been invested in the fund. The timing of an Employee's or advisory client's redemption could benefit the Employee or the advisory client. For example, the Employee or advisory client may choose to redeem its shares at a time when the fund's portfolio is more liquid than at times when other investors may wish to redeem all or part of their interests. In addition, when an investor (including an Employee) redeems a significant amount of interests, investors remaining in the fund will bear a proportionately higher share of fund expenses following the redemption.

## **ITEM 12      BROKERAGE PRACTICES**

### **Selection of Broker-Dealers**

In determining the broker-dealers through which to place securities transactions for client accounts, FPA's policy is to seek the best execution of orders at the most favorable price in light of the overall quality of brokerage and research services provided. In selecting broker-dealers to execute transactions, the determination of what is expected to result in best execution at the most favorable price involves a number of factors, including, but not limited to, the nature of the security being traded, the size and timing of the transaction, the activity existing and expected in the market for the particular security, the likelihood of price improvement, the speed of execution, the ability to minimize market impact; execution quality; historical net prices (after markups, markdowns or other transaction-related compensation); execution, clearance, and settlement and error correction capabilities of the broker or dealer generally and in connection with securities of the type and in the amounts to be bought or sold, the broker's or dealer's willingness to commit capital and the broker's or dealer's reliability and financial stability. In addition, FPA considers the broker-dealer's financial responsibility, its responsiveness and operational capabilities, and its maintenance of the confidentiality of orders. The determinative factor is not the lowest possible price or commission cost, but whether the transaction represents the best qualitative execution under the circumstances. As a result of any or a combination of the above factors, transactions will not always be executed at the lowest available price, commission, and/or mark-up/mark-down. FPA need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread.

Fixed income securities may be purchased from the issuer or broker-dealer or primary market-maker acting as principal for the securities on a net basis, with no brokerage commissions being paid by the client, although the price usually includes certain undisclosed compensation to the dealer. Rather than purchasing from a broker-dealer on a principal basis, in certain circumstances consistent with its responsibilities in seeking best execution, FPA may engage a broker-dealer to act as agent (for which such broker-dealer may be paid a negotiated commission or mark-up) in purchasing fixed-income securities for client accounts. Securities also may be purchased from underwriters at prices that include underwriting fees.

FPA has established a Brokerage and Trading Practices Committee that has oversight responsibility for FPA's brokerage practices. The Committee generally meets quarterly or on an ad-hoc basis as needed.

FPA places some orders through financial firms that use, offer or include products of FPA or its affiliates on their platform. FPA does not take into account such relationships when selecting firms through whom orders are placed.

### **Research and Other Soft Dollar Benefits**

The term "soft dollars" refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the adviser. FPA has established soft dollar arrangements with certain brokers and may use "soft dollars" generated

by client portfolios to pay for research-related services such as: written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; systems used for research and as a portfolio management tool; discussions with research personnel; and invitations to attend conferences or meetings with management or industry consultants. Research services provided by broker-dealers may be used by FPA in connection with investment services provided to accounts other than those whose transactions were executed through the broker-dealer providing the service.

Section 28(e) of the Securities Exchange Act of 1934 provides a “safe harbor” to investment advisers who use “soft dollars” generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to an adviser in the performance of investment decision-making responsibilities. The soft dollar arrangements entered into by FPA are within the safe harbor afforded by Section 28(e).

The brokerage and research products and services that FPA receives from broker-dealers supplement FPA’s own research activities. As a practical matter, in some cases FPA could not, on its own, generate all of the research that broker-dealers provide without materially increasing expenses. Consistent with Section 28(e), research products or services obtained with “soft dollars” generated by an FPA client may be used by FPA to service one or more other client accounts, including client accounts that may not have paid for the soft dollar benefits. FPA seeks to allocate soft dollar benefits by strategy. Within a strategy, FPA does not seek to allocate soft dollar benefits proportionately to the soft dollar credits the accounts generate. Some strategies trade more frequently than others and potentially could bargain for lower commission rates. Generally, clients in each strategy pay the same commission rate, unless a specific brokerage rate is required under a client’s advisory agreement, because FPA believes that all of its clients benefit from access to research and the payment of different commission rates within the same firm could make some broker-dealers less willing to provide research products and services to FPA.

Note, however, that due to European Union so-called “MiFID II regulatory requirements”, certain clients (“European Clients”) may require FPA to either eliminate or limit research costs to be incurred with respect to their accounts. As a result, FPA may establish terms with European Clients designed to mitigate risks that research costs paid for with soft dollars are disproportionately incurred by other FPA clients. These terms may include: (i) establishing a budget for research for such European Clients that approximates the amount of soft dollars that would have been earned by such European Clients during the budget period, and (ii) requiring payment for such costs from FPA for the European Client up to a certain budget. Note however that there is a risk that if an extraordinary amount of trading is conducted with respect to any European Client account (and therefore the established budget is less than the amount that would have otherwise been earned in soft dollars by such European Client account), other clients may incur a substantially disproportionate amount of research costs through the use of soft dollars.

Where a product or service obtained with soft dollars provides both research and non-research assistance to FPA (i.e., a “mixed use” item), FPA will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of FPA’s determination of how to allocate the costs of such benefits and services.

Soft dollar arrangements create a potential conflict by giving an investment adviser an incentive to trade frequently to generate commissions to pay for these products or services, which may not be in the best interests of an adviser's clients, or, in some cases, to trade actively in certain accounts to obtain research used primarily by other, less frequently traded accounts. FPA attempts to mitigate these potential conflicts through oversight of the use of commissions by the Brokerage and Trading Practices Committee.

### **Brokerage for Client Referrals**

FPA does not consider client referrals when selecting or recommending broker-dealers.

### **Directed Brokerage**

FPA determines which broker to use to execute each order, consistent with its duty to seek best execution of the transaction. However, certain clients may limit FPA's selection of brokers or instruct FPA to direct trades through a particular broker. In these cases, FPA at times will place separate, non-simultaneous, transactions for its clients and a directed client account that could temporarily affect the market price of the security or the execution of the transaction, or both, to the detriment of all accounts. Directing clients at times will receive worse prices, and/or pay higher commissions than non-directing clients. Alternatively, from time to time, FPA may endeavor to aggregate the directed brokerage order with non-directed brokerage orders for execution and then step out the trade to the directed broker for clearance and settlement. This arrangement facilitates two purposes. First, a step-out allows the directed broker to receive the commissions. Second, aggregation of directed brokerage orders with non-directed orders allows directed brokerage clients to participate on the same terms and conditions as other non-directed brokerage clients.

### **Aggregation of Trades**

FPA may, in its discretion, aggregate orders being placed for execution at the same time for the accounts of two or more clients, which may include FPA Mutual Funds, FPA Private Funds, and SMAs, where it believes such aggregation is appropriate and in the best interest of its clients. This practice may enable FPA to seek more favorable executions and net prices for the combined order. However, FPA is not obligated to aggregate orders or to include any particular account in an aggregated order if portfolio management decisions for different accounts are made separately or if FPA determines that aggregating trades would be inconsistent with FPA's investment management duties or with any investment objectives, guidelines or restrictions applicable to a particular client. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client account will receive the average price, with transaction costs generally allocated pro rata based on the size of each account's participation in the order (or allocation in the event of a partial fill) as determined by FPA. All orders placed for execution on an aggregated basis are subject to FPA's allocation policies and procedures. FPA employees will aggregate orders where appropriate for the participating clients and consistent with FPA's duty to seek best execution.

## **Allocation of Partially Filled Orders**

If FPA is unable to fill an aggregated transaction completely, it allocates the partially filled orders according to FPA's allocation policy among accounts participating in the order. The objective of FPA's allocation policy is to achieve fair and equitable treatment of all clients' accounts over time through its trade allocation process. No preference is given with respect to portfolio size, or tenure of client.

## **ITEM 13 REVIEW OF ACCOUNTS**

The portfolio managers for each FPA client account review those accounts on a regular basis. FPA's investment advisory accounts are under constant review because of the commonality of holdings among the relatively low number of accounts under management in similar strategies. These factors facilitate the continual monitoring of client portfolios in relation to changes in market prices and available information (e.g., earnings and dividends). All reviews are conducted pursuant to the guidelines established by, or in connection with, the applicable client account.

FPA provides reports to investors in the FPA Mutual Funds and to other clients as required by the applicable Governing Documents. Investors in the FPA Mutual Funds or FPA Private Funds should refer to the applicable Governing Documents for further information on the reports provided to a particular fund's investors.

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

From time to time, FPA enters into written solicitation agreements for the referral of FPA's investment advisory services under which persons introducing new clients to FPA receives a referral fee. When entering such agreement, FPA complies with all applicable securities requirements including Rule 206(4)-3 under the Advisers Act. Generally, the fee is based on a percentage of the investment advisory fees and/or performance fees earned on assets invested with FPA or a flat fee at the commencement of the relationship. Clients do not pay higher fees as a result of these arrangements.

## **ITEM 15 CUSTODY**

FPA does not maintain physical custody of the funds or securities of any client. However, FPA is deemed to have custody of the assets of the FPA Private Funds within the meaning of Rule 206(4)-2 under the Advisers Act (the "Custody Rule") because of the authority it or a related party has over such clients or their assets. FPA complies with the Custody Rule with respect to the FPA Private Funds by causing each FPA Private Fund to be audited annually and distributing the audited financial statements prepared in accordance with U.S. generally accepted accounting principles to investors no later than 120 days (or 180 days for a fund of funds) after each FPA Private Fund's fiscal year end.

## **ITEM 16      INVESTMENT DISCRETION**

FPA has discretionary authority to manage securities accounts on behalf of its clients. FPA's discretionary authority is generally limited by the investment objectives, strategies, policies, and restrictions set forth in the Governing Documents. For certain FPA clients, as discussed above, investment discretion has been delegated to a sub-adviser subject to oversight by FPA.

## **ITEM 17      VOTING CLIENT SECURITIES**

To the extent that FPA holds securities that require it to vote proxies or in circumstances in which FPA's employees are serving on the board or other governing body of a portfolio company and are required to vote on a matter, FPA has a responsibility to vote the proxies in a manner in which it views to be in the best interests of its clients. In this regard, in accordance with Rule 206(4)-6 under the Advisers Act, FPA has adopted written policies and procedures regarding the voting of client proxies that seek to ensure that FPA fulfills its fiduciary obligations to clients, including policies for addressing material conflicts that may arise between FPA and its clients.

Under such policies and procedures, FPA is authorized to vote proxies on behalf of its clients unless a client specifically retains or delegates this authority to another party in writing. FPA has adopted a written Proxy Voting Policy that seeks to reasonably ensure that all proxy voting decisions are made in the best interests of advisory clients for whom FPA has voting authority. FPA will act in a prudent and diligent manner intended to enhance the value of the assets of the client's account. FPA has contracted with Institutional Shareholder Services, Inc. ("ISS") to assist FPA in the administration of its proxy voting responsibilities.

In the event a proxy vote raises material conflicts of interests, FPA will convene an internal group of senior FPA employees who are independent from the conflict of interest issue and after review of the issue and any associated documentation, the internal group will propose a course of action that they determine is in the best interest of the applicable FPA client(s). The internal group may take, but is not limited to, the following courses of action: (i) consulting with the board of directors/trustees of the FPA Mutual Funds (as applicable) for conflicts involving registered investment companies for a course of action; (ii) voting in accordance with the recommendation provided by its proxy voting service provider; (iii) "echo" or "mirror" voting the shares in the same proportion as other votes; (iv) seeking client consent for the vote recommended by the Portfolio Manager; (v) engaging an independent third party to provide a recommendation on how to vote the proxy; or (vi) abstaining from voting the proxy.

Although FPA, through ISS, shall attempt to process every vote for all domestic and foreign proxies that they receive and in which they have discretion to vote, in certain instances, FPA may elect not to vote a proxy or otherwise be unable to vote a proxy on a client's behalf. Such instances may include, but are not limited to: (i) a de minimis number of shares held; (ii) potential adverse impact on the client's portfolio of voting such proxy (e.g., share blocking or short-term prohibitions on selling the issuer's shares after the vote); (iii) logistical or other considerations related to non-U.S. issuers (e.g., where an investment company's legal structure may not be recognized in the relevant jurisdiction); or (iv) if FPA believes the costs of voting the proxy exceed the expected benefit to the client. In addition, FPA generally will not seek to recall securities that

are out on loan for the purpose of voting the securities unless it is in the client's best interests to do so.

Clients and investors may obtain a copy of FPA's Proxy Voting Policy, as updated from time to time, as well as information on how FPA voted their accounts' securities upon written request to:

First Pacific Advisors, LP  
Attn: Compliance Department  
11601 Wilshire Boulevard, Suite 1200  
Los Angeles, CA 90025

As a matter of policy, FPA does not disclose how it expects to vote on upcoming proxies.

### **Class Actions Settlements**

Securities issuers are, on occasion, the subject of class action lawsuits where the class of potentially injured parties is defined to be purchasers of the issuer's securities during a specific period of time. These cases may result in an award of damages or settlement proceeds to the class members who file claims with the settlement administrator. At the time of the settlement, notice of the settlement together with a claim form and release is generally sent to the custodian of the securities, who in turn may forward these notices to the clients. FPA does not provide any legal advice to clients in connection with class action litigation. FPA will instead provide client accounts with reasonable assistance by providing account-level information as clients may request.

### **Legal Proceedings**

As a general matter, except as required by law or contract, FPA does not monitor, advise or act for a client in legal proceedings, including, but not limited to bankruptcies or other legal proceedings involving securities purchased or held in a client's account. However, in certain circumstances, FPA may obtain a client's written permission to act on such client's behalf in a legal proceeding (including bankruptcies) in the event FPA believes such action will be an overall benefit to all of its clients involved in such matter. FPA does not provide legal advice to such clients in the event FPA takes action in a legal proceeding. Clients should instruct their custodians to promptly forward any communications relating to legal proceedings involving such assets.

## **ITEM 18 FINANCIAL INFORMATION**

FPA does not require or solicit prepayment of fees by any client six months or more in advance, and thus, has not included a balance sheet for its most recent fiscal year. FPA is not aware of any financial condition that is reasonably likely to impair its ability meet its contractual commitments to clients, nor has FPA been the subject of a bankruptcy petition at any time.