see money differently

NEDGROUP INVESTMENTS GLOBAL FLEXIBLE FUND

Quarter Four, 2019

For the period ended 31 December 2019

NEDGROUP INVESTMENTS GLOBAL FLEXIBLE FUND

The following commentary was provided by the sub-investment manager, First Pacific Advisors, LP ("FPA").

USD performance to 31 December 2019	Nedgroup Investments Global Flexible[1]	S&P 500	MSCI World
3 months	5.5%	9.1%	8.6%
12 months	19.5%	31.5%	27.7%

Global stock markets ended 2019 on a high note, as demonstrated in the table above. It was a "risk on" year with even US Investment Grade bonds delivering 14.2% for the year, approximately in line with the high yield bond market's 14.4% performance.[2] The Nedgroup Investments Global Flexible Fund ("the Fund") returned 5.5% (net of fees) in the fourth quarter and 19.5% for the full year 2019.

Portfolio

The Fund has unusual breadth, having the ability to invest in diverse regions, sectors and asset classes. Yet, at FPA, we will only commit capital when they have determined that upside opportunity exceeds downside risk. If we believe prices are attractive, we buy. If not, we hold or sell. Importantly, we do not (because we cannot) try to pick market tops or bottoms.

Santa left coal in our stockings at Christmas 2018 as global markets swooned. Like good little children, we did the right thing and took advantage of lower prices, increasing the Fund's risk exposure by approximately ten percentage points in the second half of 2018. Then Christmas came early last year as markets rebounded, ultimately reaching new highs. FPA's portfolio management team similarly took advantage of rising prices in 2019 and reduced or sold positions that we could no longer justify holding given valuations, and therefore ended the year with approximately 6% less risk exposure.

The US continued to outperform international markets, which has made foreign domiciled companies marginally less expensive, all else being equal. At the end of the year, the S&P 500 trailing price-to-earnings ratio (P/E) was 21.6x, higher than the 20.0x of the MSCI World. The international component of the MSCI World traded at a P/E of 16.3x at year-end. This almost 25% discount to US stocks helps to explain why the Fund's exposure to international companies has increased.

The Fund's shareholders have entrusted FPA's portfolio management team to decide when upside opportunity surpasses downside risk. The Fund's investment exposure will therefore swing between more and less invested. While the Fund was less invested in 2019, we have no doubt that there will be opportunity to deploy more of its capital in the future.

We continue to focus on companies that have at least a small breeze at their back and avoid those businesses with wind in their faces. Over time, we generally expect the companies we own to sell an increasing number of units as well as have at least enough pricing power to offset cost inflation.

While the commentary exhibits contributors and detractors to the Fund's performance for the most recent quarter and on a trailing twelve-month basis, quarterly price movements are generally not much more than "noise," frequently reversing in the coming months or quarters. It is therefore more informative to focus on what has happened in the most recent year, as shown below.

1 Gross USD return for the Nedgroup Investments Global Flexible Fund, A class. Source: Morningstar (monthly data series).

2 ICE BofA US Corporate Index 14.23%. ICE BofA US HY 14.41%

Winners and Losers[3]

Q4 2019

Winners	Performance contribution (%)	End weight (%)	Losers	Performance contribution (%)	End weight (%)
Arconic	0.60%	3.5%	AIG	-0.29%	3.4%
Alphabet	0.43%	4.4%	Ally Financial Inc	-0.06%	0.7%
Charter Communications	0.37%	2.0%	Mylan N.V.	-0.06%	0.0%
Jefferies Financial Group	0.36%	2.4%	Spectrum Brands	-0.05%	0.0%
Broadcom Inc.	0.36%	2.4%	California Resources Corp. 8.0% 15.12.2022	0.00%	0.03%

Trailing Twelve Months

Winners	Performance contribution (%)	End weight (%)	Losers*	Performance contribution (%)	End weight (%)
Arconic,	1.93%	3.5%	Baidu	-0.46%	1.2%
Charter Communications	1.15%	2.0%	Mylan N.V.	-0.41%	0.0%
AIG	1.09%	3.4%	O-I Glass Inc	-0.32%	0.7%
Alphabet	1.09%	4.4%	Glencore plc	-0.11%	1.0%
Citigroup Inc.	1.01%	1.4%	Jardine Holdings	-0.09%	0.4%

The Fund's investment in the cable industry via Charter Communications (up approximately 70% in 2019) along with Comcast (up approximately 34%) were two notable contributors to performance in 2019.[4] We made these investments in mid-2018, when many investors were concerned that subscribers would cut the cord in favour of streaming and when wireless 5G threatened to damage these companies' dominant broadband franchise. Our belief remains that while video will continue to shrink, it is less profitable on a cash basis than many believe it to be. Thus, we think broadband should remain vibrant, as it is likely to take many years and many billions of dollars before the potential impact of the competitive threats is known. The market has sidled over to the same thinking on this, at least for the time being.

American International Group's (AIG) stock lost 32% in 2018, including dividends, negatively impacting the Fund's performance in that year. In 2019, however, it delivered a total return of +34%. The company's multi-year turnaround efforts are finally bearing fruit, and the market has begun to take notice. The Fund further benefitted by increasing its stake to take advantage of price weakness in late 2018. If AIG's return on capital continues to improve, as we expect, the company should trade at a similar price-to-tangible book value multiple as its peers. As value investors, AIG is emblematic of so many of the FPA portfolio management team's investments that underperform on their way to outperforming.

Glencore shares were under pressure on the back of commodity weakness and regulatory concerns. We continue to think that the shares at a single digit free cash multiple represent compelling value.

[3] Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the quarter and trailing twelve months ("TTM"). Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter and TTM. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed.

[4] Percentage change reflects total return including the reinvestment of dividends and interest.

Investing

Value investing means investing with a margin of safety so if all doesn't go according to plan (either FPA's or a company's), then investors may nonetheless come out close to whole. This may mean having the protection of business and/or balance sheet, but without that protection, the emperor wakes up one day to realize he's not wearing clothes.

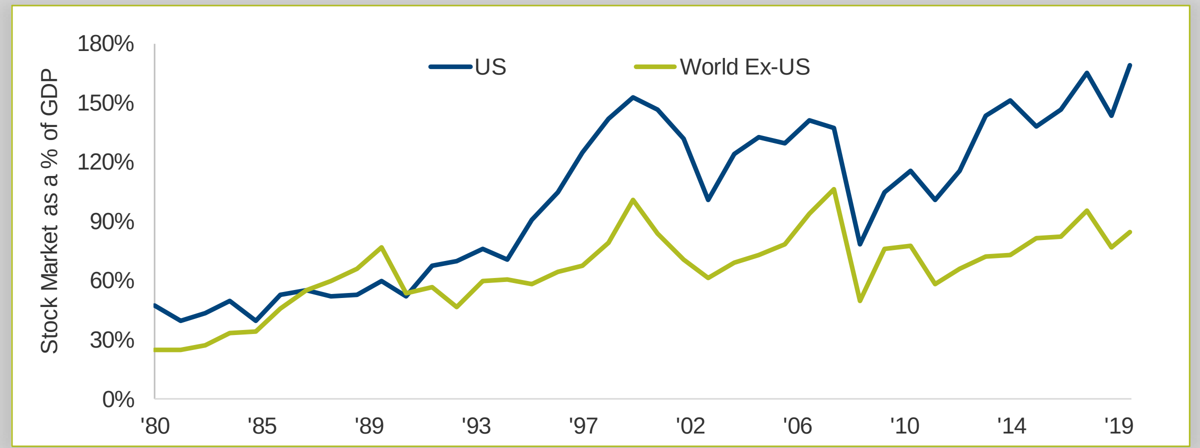
Being a value investor in 2019 was like wearing a crew cut in Haight Ashbury in 1969 – not only do you stand-out, you invite a bit of ridicule. We value investors must not acquiesce to the fear of missing out, however, and instead make peace with a different kind of FOMO, the fate of missing out. To do well over long periods of time means accepting that the Fund won't do well for lengths of time in between. We realise that has made us appear both smart and dumb at different moments in time, but our goal is to deliver over the long run rather than at any one point in time.

When all appears easy, it generally isn't. What we won't do as your portfolio managers, is redefine value. We truly believe that we can help ourselves and shareholders by staying the course and continuing to invest bottom- up.

Taking a look from the top down, though, helps explain why we find it more challenging to unearth suitable investments today. We end up struggling to find great risk/rewards against the following backdrop.

Low interest rates and a lack of investment alternatives have lifted the price of risk assets globally. Global stock markets trade at or near their highs as a percent of their respective economies, as shown in Exhibit A.

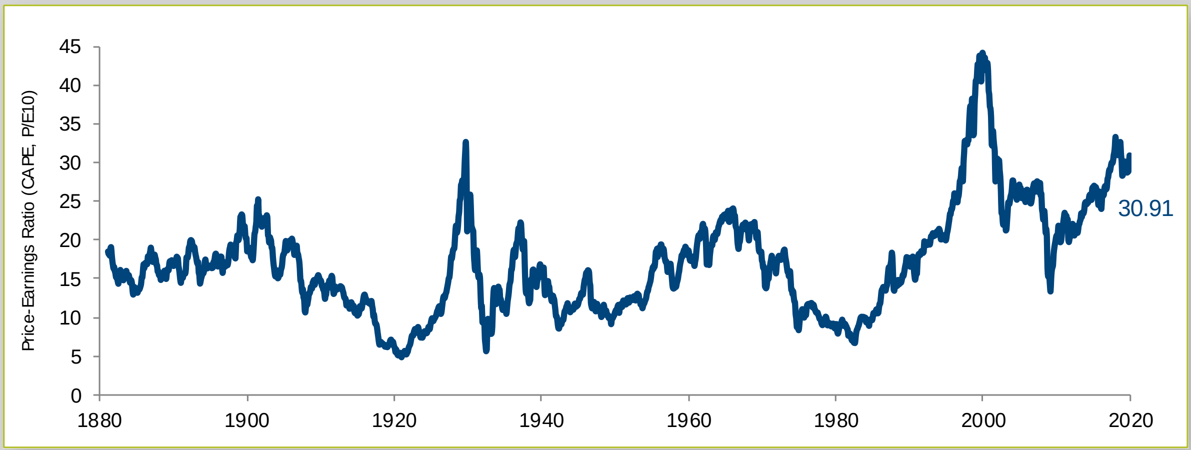
Exhibit A: Stock Market as Percent of GDP



Source: The World Bank, IMF, MSCI, as of September 30, 2019

Looking at the stock market from a price-to-earnings (P/E) basis, it becomes clear that when earnings are smoothed, valuations have only been this high once before. This is shown in Exhibit B, using the Shiller P/E methodology that divides current price by 10-year average earnings (moving average), adjusted for inflation.

Exhibit B: Shiller P/E

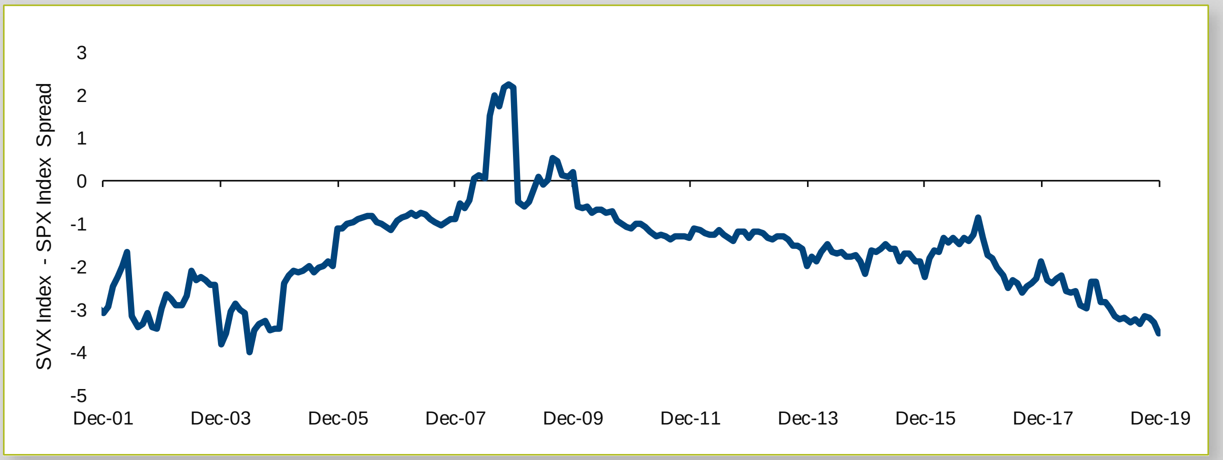


Source: Robert Shiller, http://www.econ.yale.edu/~shiller/data.htm, as of December 31, 2019.

However, current P/E ratios are not so outlandish in the context of low interest rates and a reasonably good economy. Should rates remain low and economies avoid weakening measurably, markets could reasonably remain at today's elevated levels.

The long outperformance of growth stocks compared to value stocks has left value much less expensive, trading at a relative P/E that's about as low as our portfolio management team has ever seen in our careers. This does not make value stocks cheap, just less pricey than growth stocks.

Exhibit C: P/E Spread – S&P 500 Value vs S&P 500



Source: Bloomberg, as of December 31, 2019.

In fact, value stocks have performed reasonably well over the last decade. The S&P 500 Value Index has compounded at a rate of 12.14%. Value investments just haven't done as well as growth stocks, which have annualised at 14.76%.[5] However, growth stocks have outperformed their fundamentals, which has led to P/E multiple expansion, while value stocks have not. (Side note: The S&P 500 Value index had better 10-year earnings growth than the S&P 500 Growth index, but that is because it started at a point that was at its earnings nadir.)

[5] Source: Bloomberg.

Exhibit D: S&P 500 Growth vs Value

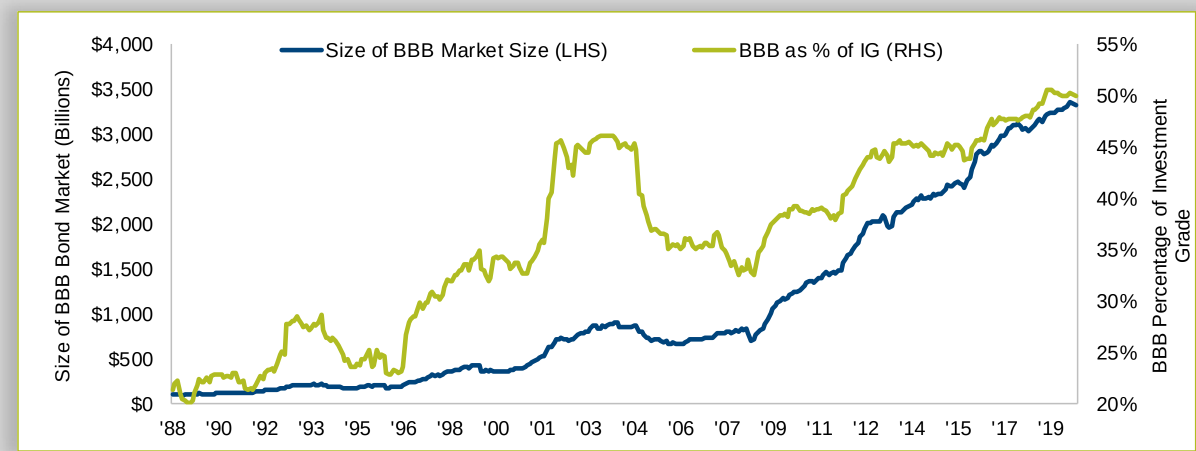
	2009		2019		
	P/E Trailing	P/E Forward	P/E Trailing	P/E Forward	CAGR
S&P 500	18.9x	18.0x	21.6x	19.8x	10.1%
S&P 500 Value	18.4x	18.2x	17.4x	16.2x	10.9%
S&P 500 Growth	18.4x	17.8x	27.4x	24.6x	9.0%

Source: Bloomberg, as of December 31, 2019.

Judging what a company is worth and where its stock should trade requires a great deal of interpretation. Analysing a bond's performance is generally easier, as the most you can get as a return is the contracted amount, though an appreciation for the underlying company's solvency will cause one to accept a higher or lower yield. Credit investors' current acceptance of historically low yields reflects their greater concern for return than for risk, whether it be in investment grade, high yield or levered loans.

The investment grade (or IG) bond market today has the lowest yield and lowest credit quality in its history. For instance, lowly BBB credits have more than quadrupled. Low yield and low credit quality don't generally go hand in hand. In addition, at 7.9 years, the IG market has the longest term in its history. Any increase in interest rates or spread will therefore have a larger impact than has been the case previously.

Exhibit E: BBB Market Size and Percent of Investment Grade Market[6]



Source: Bloomberg, as of December 31, 2019.

The levered loan market has trebled from $527 billion to $1.5 trillion over the last 10 years and yields just 6.2%. Cracks are beginning to show. About 4% of the leveraged loan universe is now trading below 80 cents on the dollar, versus just 2% in May 2019.[7] We suspect that busted levered loans will be a future opportunity under the Fund's broad mandate.

The high-yield segment of the credit market has been important to the FPA's contrarian value strategy since its inception. Today, however, the FPA portfolio management team is not getting paid anywhere near enough to invest broadly in high yield. We said the same thing a year ago – and the high yield market soared. But more than half of its 14% return came from tighter spreads and lower yields due to a decline in interest rates.[8]

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[6] BBB market size represented by total market value of the ICE BofAML BBB US Corporate Index. BBB as a percent of Investment Grade is ICE BofAML BBB US Corporate Index divided by ICE BofAML US Corporate Index.
[7] S&P/LSTA Leveraged Loan Index.
[8] iShares iBoxx High Yield Corporate Bond ETF delivered a 14.23% total return in 2019 with 8.37% due to capital appreciation and the balance from income/dividends.

We were under no illusion that just because we didn't think the risk/reward then in high yield was attractive, the market would collapse, and we don't mean to suggest it will collapse now. We do want to make sure that a prospective return justifies the risk assumed. As much as that wasn't the case a year ago, we believe it is even less so now.

We offer five good reasons why we believe that high yield should be avoided:

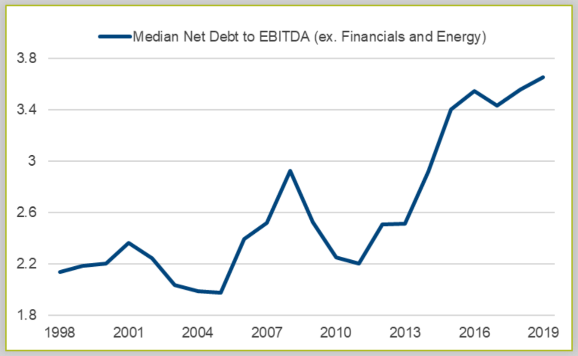
1. Low yields: Trades at 5.4%, near its lowest all-time yield. (Exhibit F)
2. Narrow spreads: Current spread over Treasuries is 3.7%, well below average. (Exhibit F)
3. Lower credit quality: Leverage and interest coverage metrics of corporate America [using Bloomberg Barclays US Corporate High Yield Index as a proxy] are at a low which is particularly unusual in that the economy is relatively robust. (Exhibit G)
4. Weak covenants: About as weak as they've ever been. Weaker covenants give the advantage to the borrower (Exhibit H)
5. Larger credit market: The corporate bond market has grown from $4.3 trillion to $9.4 trillion in the last decade. The high-yield and levered loan components of it have almost doubled from $1.5 trillion to $2.8 trillion (Exhibit I)

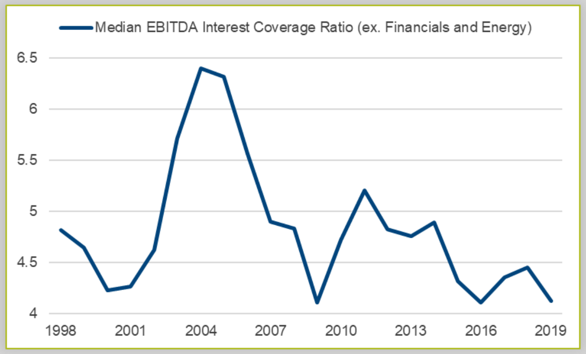
Exhibit F: ICE BofA US High Yield and Euro High Yield Indexes (YTW) vs 5-Year US Treasury Yields

	ICE BofA US High Yield	ICE BofA Euro High Yield	5-Year UST	US HY Spread vs. 5-Year
Current	**5.4%**	**2.6%**	**1.7%**	**3.7%**
High	22.5%	26.7%	7.9%	21.1%
Low	4.8%	1.9%	0.5%	2.4%
Average	8.8%	8.2%	3.4%	5.4%

Source: Bloomberg, as of December 31, 2019.

Exhibit G: High Yield Leverage Ratios





Source: Bloomberg, as of December 31, 2019.

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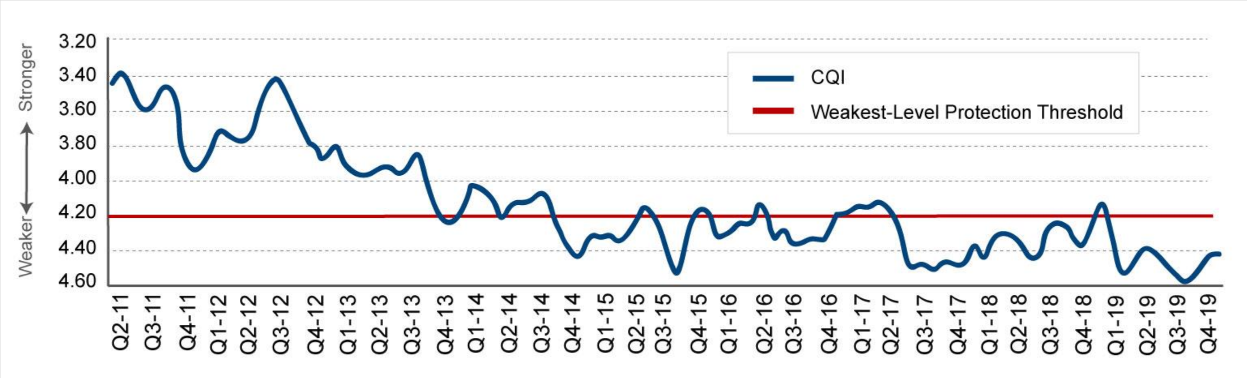
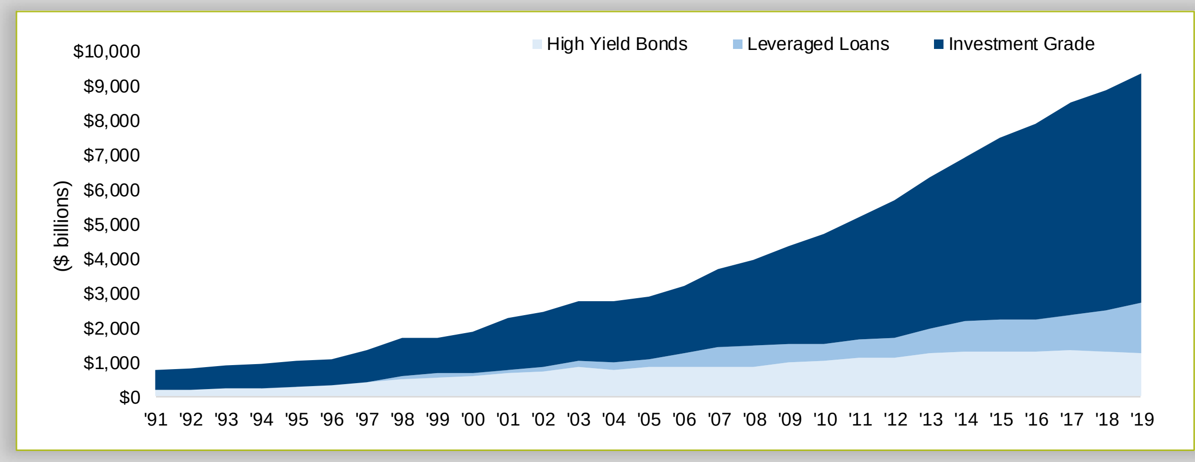
Exhibit H: Moody's Covenant Quality Indicator[9]



Source: Moody's High-Yield Covenant Database, as of December 31, 2019.

Exhibit I: US Corporate Bond Market



Sector	2009 Size	2019 Size
Investment Grade	$2,833 bn	$6,642 bn
High Yield	$985 bn	$1,268 bn
Leverage Loan	$527 bn	$1,458 bn
Total	**$4,345 bn**	**$9,368 bn**

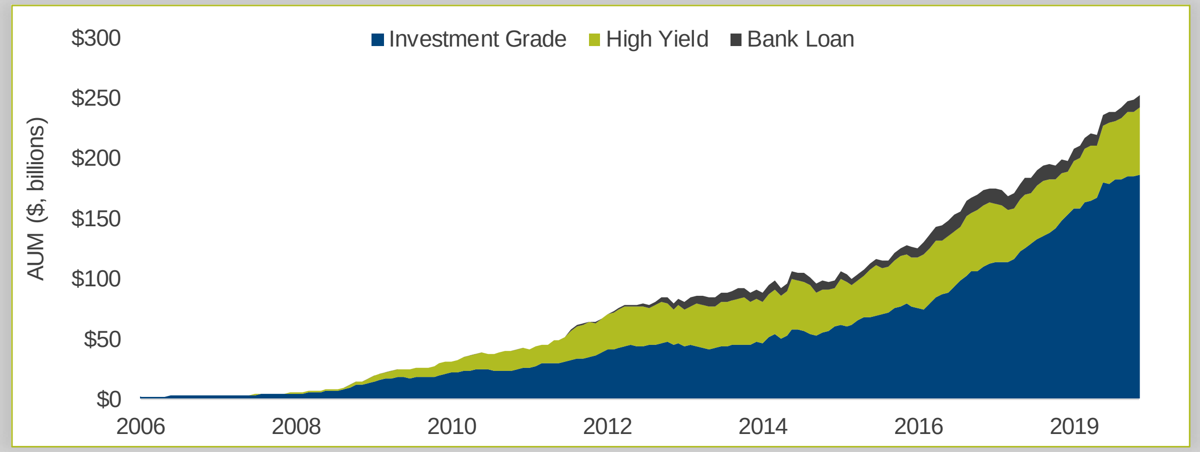
Source: Securities Industry and Financial Markets Association, chart data as of December 31, 2019.

It has recently been a tale of two high-yield markets, in which the good credits have gotten better and the bad haven't seen much price movement. Spreads of better high-yield bonds have tightened, and now almost one third of the stocks tracked in the ICE BofA U.S. High Yield Index trade at yields less than 4.0%. On the other hand, spreads of CCC-rated and riskier bonds have remained flattish over the last 12 months. When interest rates increase and/or the economy weakens, there will be lots of opportunity. Reaching for yield will have the usual consequence. This time, the fallout might be magnified further because of the five reasons for caution listed above. If there is a run on the bank, we wonder at what clearing price a buyer will step in….?

[9] As of December 31, 2019. Source: Moody's High-Yield Covenant Database Note: Moody's Covenant Quality Index (CQI) inception date was January 2011, and includes all high-yield bonds, including high-yield lite. High-yield lite bonds lack a debt incurrence and/or a restricted payments covenant and automatically receive the weakest possible covenant quality score of 5.0.

Also, the rise of passive funds adds another concern: There is now $253 billion in corporate bond exchange traded funds, or ETFs, including $56 billion in high yield and $10 billion in levered loans.

Exhibit J: AUM of Corporate Bond ETFs



Source: Morningstar, as of December 31, 2019.

Passive funds that invest in less liquid securities, such as small-cap stocks, high-yield bonds, and levered loans, only offer the illusion of liquidity. They give their shareholders the ability to buy and sell daily, but the underlying securities these funds own can be quite illiquid. Any significant selling of high-yield ETFs could cause lower-rated corporate bonds to hit a pricing air pocket with bids dropping precipitously. In this world of immediate gratification, investors are foregoing future yield for current yield and unwittingly accepting de facto illiquidity in the process.

Economy & Macro

As your portfolio managers, we offer limited value when speaking of the larger global macro environment, so here we provide only a skeletal view to help explain the challenge in finding good investments today.

As David Rosenberg of Gluskin Sheff pointed out, “In a normal cycle, the stock market has a correlation of roughly 60% with the economy. The other 40% is explained by factors like valuations, sentiment, technicals and momentum. This cycle was literally off the charts in that respect - because only 7% of this entire bull market was due to the economy. And that’s a good thing if you are long the stock market because this did go down as the weakest economic expansion on record and yet one of the most powerful bull markets ever.” Mr. Gluskin concluded, “The fundamentals do win out in the end, but it could take time.”[10]

We do not think that the stock market’s link to the economy has been severed, but it has at least been largely suspended. When and how deep a future recession might be and how the market might react remain open questions. Risk does seem skewed to the downside.

The show goes on as long as the government puppet masters allow, or when the audience leaves. The US deficit climbed just over $1 trillion in 2019, despite a growing economy and the tightest labour market on record. Central banks have found success in inflating asset prices but failed to ignite real economic activity. Most Americans are not better off today than they were a decade ago.

Extremely low interest rates continue to pervert capital allocation decisions. Whether or not to buy a piece of equipment, repurchase shares, or make an acquisition, a lower cost of capital can improve an otherwise impractical or marginal decision. This doesn’t seem likely to change anytime soon. The global monetisation experiment took a pause but has since restarted, and a more expansive fiscal policy is under discussion.

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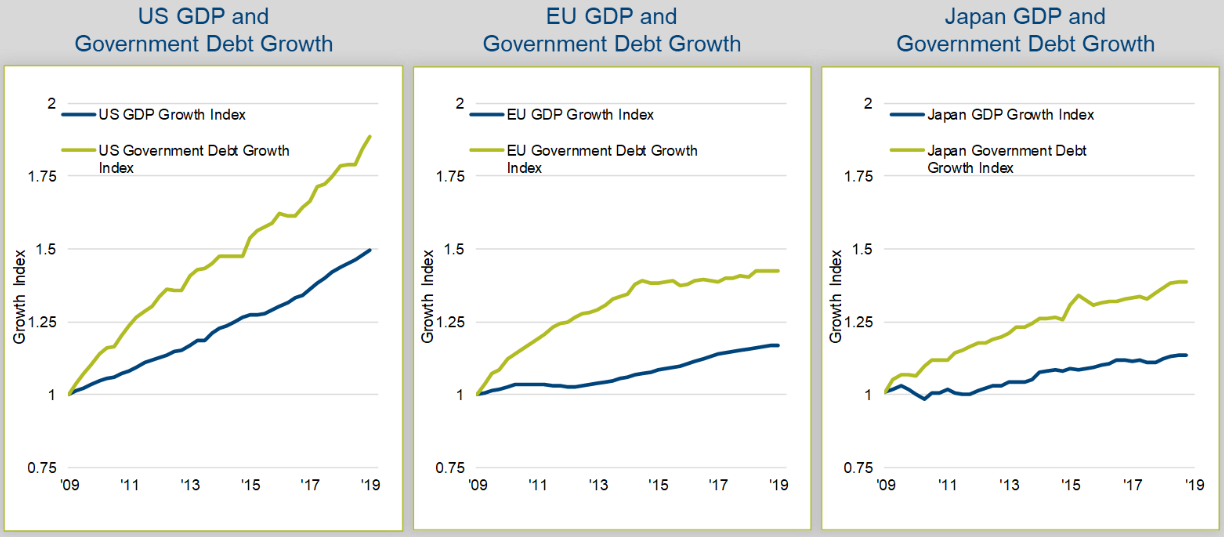
[10] Gluskin Sheff. Breakfast with Dave. December 19, 2019.

Indebted governments, companies and individuals have recalibrated to this low level of rates. When or if rates eventually rise, many of these same parties may find their finances dangerously askew.

One needs only to look east for a recent example of the failure of low interest rates to keep markets elevated. Japan cut interest rates throughout the 1990s and has kept them low ever since. Despite that, Japan's Nikkei stock index declined more than 40% four times between 1990 and 2009. Low interest rates are not a panacea and can present or mask other problems.

Debt accumulation at the sovereign, corporate, consumer and state and local levels has bought economic growth, but at an as-yet-to-be-determined cost. Debt has grown far faster than GDP in the US, a situation that can't mathematically endure unabated. Since 2009, US federal debt has increased by $10.8 trillion, helping to buy $6.9 trillion in GDP growth. The EU and Japan have similarly been borrowing to buy GDP, as depicted below (Exhibit K).

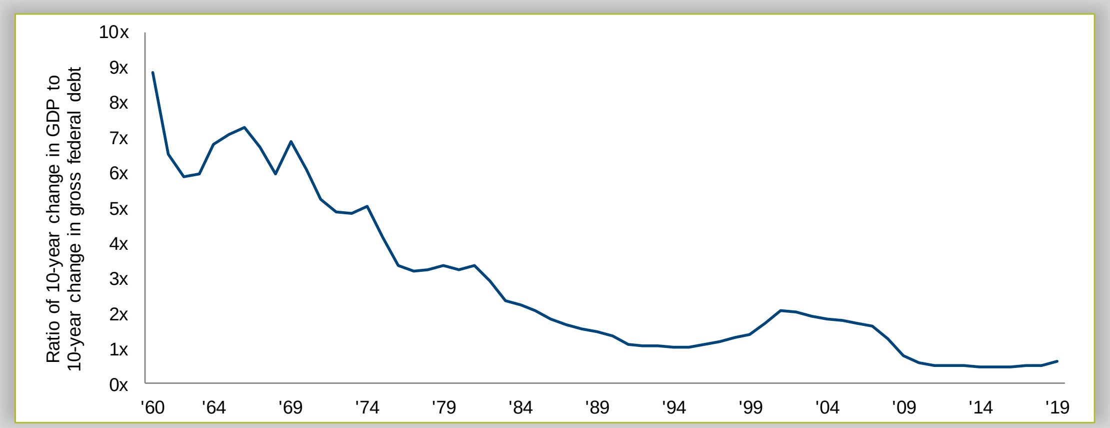
Exhibit K: Growth in GDP and Government Debt since 2009
US, EU, & Japan



Source: Bloomberg, as of September 30, 2019.

At the end of 2019, the US national debt stood at over $23 trillion, exceeding its estimated $21.4 trillion GDP. The chart below shows that the return on investment for US spending (using GDP as a proxy for income) has declined for decades and is now as low as it has ever been. As a nation, the US is getting less while paying more.

Exhibit L: 10-year change in GDP vs 10-year Change in Gross Federal Debt



Source: US. Bureau of Economic Analysis, as of December 31, 2019.

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Corporate debt growth has been another contributor to US GDP growth, almost trebling since 2008 without a commensurate increase in GDP. Relative to the size of its economy, the US now has more debt on corporate books than at any point in time in history (Exhibits I and M). In good times, leverage enhances corporate earnings, but the opposite is true in an economic downturn.

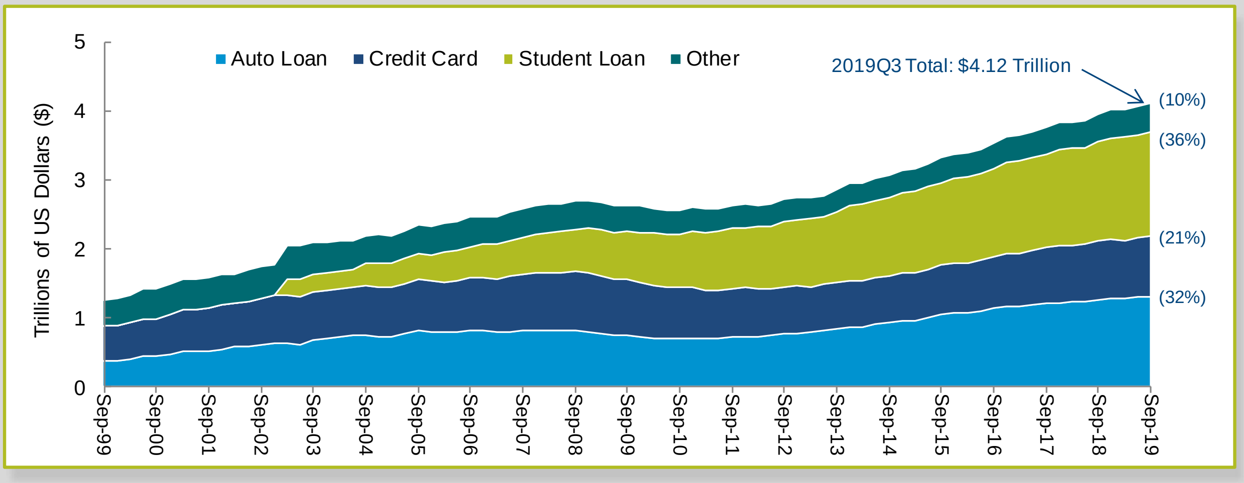
Exhibit M: US Corporate Debt as Percent of GDP

Source: Morgan Stanley, as of September 30, 2019.

Not wanting to be left out, households have joined the debt accumulation party. Consumer debt is now at an all-time high in dollars and as a percent of GDP. Superficially, household debt growth doesn't appear so terrible, but that perception is biased by the fact that non-housing debt has grown much faster than mortgage debt and only 64% of households own a home.

Increasing auto, student and credit card loans continue to propel the economy as they reach new heights. Non-housing debt balances have been increasing faster than income and now sit at $32,035 per household. Unlike government debt, individuals must one day repay their debts.[11]

Exhibit N: Non-Housing Debt Balance



Source: New York Fed Consumer Credit Panel/Equifax, as of September 30, 2019.

[11] Source: New York Fed Consumer Credit Panel/Equifax; Statista.com, as of September 30, 2019.

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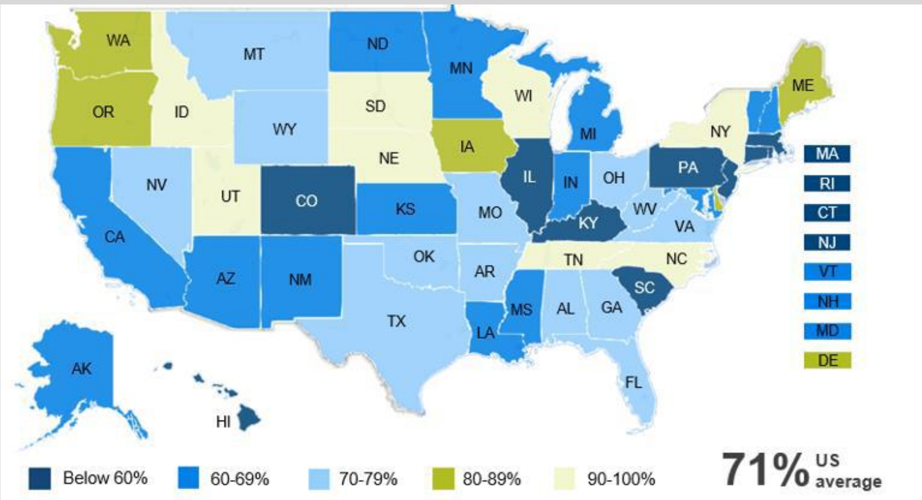
Simply, the average American's finances are getting strained. Take auto loans as an example. Car buyers have stretched their auto loans over longer periods so that they can buy the car they want, or just to buy a car at all.

Experian reported in the first quarter of 2019 that the average term for a new car loan is 68.9 months, with the term of more than one third of new vehicle loans longer than 73 months and with a few as long as 96 months.[12] The credit rating agency also stated that the average initial term for a used car loan is 64.7 months -- and that's for a car that's already a few years old. Some 20% of used car loans are for longer than 73 months. Thus, the average used car buyer will still be paying off a loan for a car that's more than eight years old – and Consumer Reports sets the average life of a *new* car at only about eight years.[13]

Debt accumulation in the form of unfunded liabilities also will likely pose a problem in the future, but that problem might lie well beyond a typical investment horizon. Nevertheless, it's good to understand the current state of affairs.

Almost three quarters of state and local pensions in the US are under-funded, despite optimistic assumptions about the expected return on plan assets.[14] The state pension funding gap alone is arguably understated by $1.3 trillion or so.

Exhibit O: Funded Ratios for State Pension Plans



Source: Bloomberg, Comprehensive Annual Financial Reports as of fiscal year 2017.

The US also has an estimated $122 trillion of unfunded federal liabilities, including Social Security and Medicare.[15] Unfunded federal, state and local liabilities could be mitigated by higher taxes and changes to benefits. These politically painful options, if implemented, would likely prove an economic obstacle. We will inevitably come upon a time when we will be forced to live within our means, and the consequences, at least for a time, will not benefit the stock market.

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[12] https://www.experian.com/blogs/ask-experian/research/auto-loan-debt-study/; https://www.creditkarma.com/auto/i/car-loan-term/

[13] Sources: Experian.com, Research, *Auto Loan Debt Sets Record Highs,* July 18, 2019. Data is from Q1 2019; https://www.experian.com/blogs/ask-experian/research/auto-loan-debt-study/; and FRED (Federal Reserve Economic Data); and Archival FRED,

[14] Take CalPers (California Public Employee Retirement System) as an example. It reported its funded status as of its fiscal year end 6/30/2019 at about 70%, but that's with optimistic assumptions (6.1% expected net return; ~7% discount rate; expected life span, etc.). With plan assets at about $370bn at the end of their fiscal year, at 70% funding→ $529bn Pension Benefit Obligations, which means $159bn underfunding. If its portfolio averages just 1% less in return, then its underfunding would grow to 38-39%, or ~$30bn.

[15] https://www.realclearpolitics.com/articles/2019/01/10/unfunded_govt_liabilities_--_our_ticking_time_bomb.html

Conclusion

At FPA, we continue to seek to capitalise when equities (both domestic and foreign) and credit (mostly public but some private) are ripe. If not, we shall maintain our more conservative posture. There are those who take liquidity and those who provide it. We prefer to be the latter, a function of temperament and having cash on hand for investment.

We look for shareholder partners of a like mind, those who also prefer an equity-like rate of return over time while trying to avoid a permanent impairment of capital.

We try to field a balanced team, playing both offense and defense. Since we believe that the stock market will generally rise over time, we do tilt more towards offense but not indiscriminately. If we are given lemons, we will make lemonade, but we can’t even do that if there’s a drought.

It is generally psychologically easier to invest when a rising market validates an investor’s purchases. We take greater comfort when choppier markets challenge an investor’s conviction, even more so when a lower price follows each new purchase. For now, anyway, it seems to be buy high and sell higher.

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The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.

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The Fund has been recognised under paragraph 1 of schedule 4 of the Collective Investment Schemes Act 2008 of the Isle of Man

Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

The Prospectus of the Fund, the Supplement of its Sub-Funds and the KIIDS are available from the Investment Manager and the Distributor or from its website www.nedgroupinvestments.com

Changes in exchange rates may have an adverse effect on the value price or income of the product.

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FPA DISCLAIMERS

This Commentary is for informational and discussion purposes only and does not constitute, and should not be construed as, an offer or solicitation for the purchase or sale with respect to any securities, products or services discussed, and neither does it provide investment advice. Any such offer or solicitation shall only be made pursuant to the Fund's Prospectus, which supersedes the information contained herein in its entirety. This presentation does not constitute an investment management agreement or offering circular.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. Investments, including investments in the Fund, carry risks and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; this may be enhanced when investing in emerging markets. Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks.

The return of principal in a bond investment is not guaranteed. Bonds have issuer, interest rate, inflation and credit risks. Interest rate risk is the risk that when interest rates go up, the value of fixed income securities, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principal due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults the security may lose some or all of its value. Lower rated bonds, callable bonds and other types of debt obligations involve greater risks. Mortgage-backed securities and asset-backed securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets. Derivatives may increase volatility.

Value 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. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

The statements contained herein reflect the opinions and views of the FPA portfolio management team as of the date written, is subject to change, and may be forward-looking and/or based on current expectations, projections, and/or information currently available. Such information may not be accurate over the long-term. These views may differ from other portfolio managers and analysts of the sub-investment manager as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities or sectors should not be construed as a recommendation by the Fund, the portfolio managers, or the Adviser or sub-investment manager to purchase or sell such securities, and any information provided is not a sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. The performance data herein represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost.

Index Definitions

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

Other Definitions

CAPE ratio (cyclically adjusted price-to-earnings) is a valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle.

Free Cash Flow represents the cash a company generates after cash outflows to support operations and to maintain or expand its capital assets (e.g., property, plant and equipment "PP&E").

Margin of safety - Buying with a "margin of safety" is when a security is purchased at a discount to the portfolio manager's estimate of its intrinsic value. Buying a security with a margin of safety is designed to protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

Net Risk Exposure is a measure of the extent to which a fund's trading book is exposed to market fluctuations. In regards to the Fund, it is the percent of the portfolio exposed to Risk Assets.

Price to Earnings Multiple Expansion is when the price of the share of a company gain more than their underlying earnings. In this situation, an asset can sometimes be referred to as richly priced.

Return on capital measures the return that an investment generates for capital contributors, i.e. bondholders and stockholders. Return on capital indicates how effective a company is at turning capital into profits.

Risk Assets is any asset that carries a degree of risk. Risk asset generally refers to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate and currencies, but does not include cash and cash equivalents.