

Annual Report

FPA Crescent Fund



Distributor:

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235 West Galena Street
Milwaukee, Wisconsin 53212

December 31, 2017

FPA CRESCENT FUND LETTER TO SHAREHOLDERS

Introduction

Dear Shareholders:

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

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

Portfolio Commentary

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

Winners and Losers²

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

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

¹ Preliminary data as of December 31, 2017. Previous commentaries to reference: [Q2 2017](#), [Q3 2017](#)

² Reflects the top contributors and top detractors to the Fund’s performance based on contribution to return for the quarter and year. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented.

FPA CRESCENT FUND LETTER TO SHAREHOLDERS

Continued

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

Active Security Selection Drives Differentiated Returns

	2007-2017 CAGR	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
FPACX long equity	10.96%	21.07%	15.57%	-0.64%	13.64%	38.12%	17.77%	4.58%	22.48%	38.66%	-38.27%	11.47%
S&P 500	8.22%	21.83%	11.96%	1.38%	13.69%	32.39%	16.00%	2.11%	15.06%	26.46%	37.00%	5.49%
Alpha vs. S&P 500	2.75%	-0.76%	3.61%	-2.03%	-0.05%	5.73%	1.76%	2.47%	7.42%	12.20%	-1.27%	5.98%
Alpha vs. MSCI ACWI	5.26%	23.97%	7.86%	-2.36%	4.16%	22.80%	16.13%	-7.35%	12.67%	34.63%	-42.19%	11.66%
MSCI ACWI	5.70%	-2.90%	7.71%	1.72%	9.48%	15.32%	1.64%	11.93%	9.81%	4.03%	3.92%	-0.19%

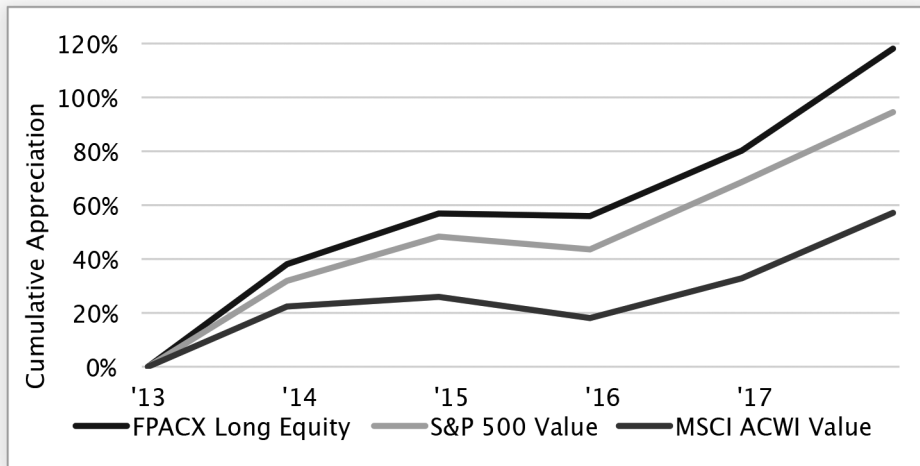
Our bread and butter — value stocks — continue to lag the overall market. Value stocks trailed the S&P 500 by 6.47% and the S&P 500 Growth index by 12.08%, their worst calendar year performance since 1999.

2017 Value vs. Growth

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

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

FPA Crescent Long Equity vs. the Value Indices



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LETTER TO SHAREHOLDERS

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

Markets and Economy

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

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

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

Global stock markets have not been inexpensive enough for a number of years to offer the potential for high single-digit rates of return and are now trading at new highs. We continue to believe there isn't enough of a margin of safety³ to warrant a fully-invested portfolio. Stocks that were not inexpensive before are even less so now with U.S. large cap valuations valued in the 97th percentile and global stocks in the somewhat more attractive 77th percentile. Government bond prices are close to all-time highs despite yields being off the bottom. Corporate bond yields are also near their all-time lows. High-yield corporate bonds hardly offer much more return and carry more risk. If history is any guide and defaults and recoveries reach past levels, then the expected return of U.S. junk bonds would be less than one percent better than U.S. Treasuries while European junk yields would be negative. There are more levered companies now than there have ever been. The levered companies are, on average, carrying more debt than in the past and with reduced investor protection (e.g., weaker covenants). High valuations and a low margin of safety explain our low risk exposure of 63.3%⁴

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

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

⁴ As of December 31, 2017

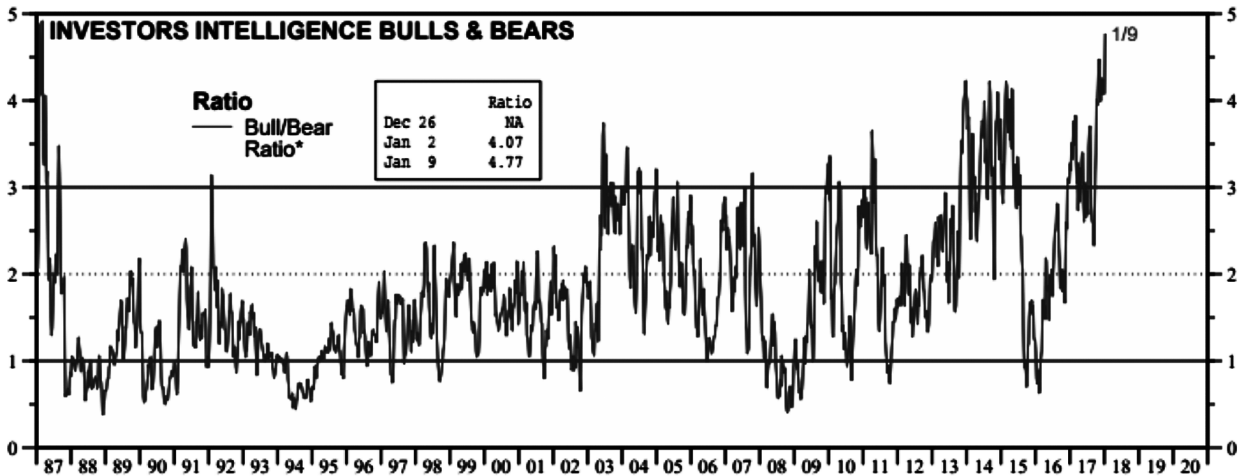
⁵ For data and charts to support the above, please refer to the charts that will be posted at www.fpafunds.com along with our Q4 2017 Conference Call transcript.

FPA CRESCENT FUND LETTER TO SHAREHOLDERS

Continued

Given the low, low level of interest rates, there seems to be little in the way of investment alternatives. Either because of that or as a result of it, volatility hit its lowest level ever last November at 8.56 intraday⁶... all of which leads to happy and bullish investors because what goes up must only continue to rise, right? Yardeni Research publishes a survey of market sentiment and, as seen in the following chart, bulls currently outweigh bears almost 5:1 — the most bullish ratio in more than thirty years.⁷

Investors Intelligence Sentiment



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

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

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

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

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

⁷ Yardeni Research, January 17, 2018 — <https://www.yardeni.com/pub/peacockbullbear.pdf>

⁸ Sign O’ The Times, Prince.

⁹ As of January 4, 2018

FPA CRESCENT FUND LETTER TO SHAREHOLDERS

Continued

Global Government Bond Yields¹⁰

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

- High-yield European corporate paper now has the same yield as US Treasuries.¹¹
- Index funds & passive ETFs now own approximately 20%-25% of the stock of the typical small-cap company.
- North Korea launched a ballistic missile over Japan on August 29, 2017 and the Nikkei was higher by the following day.
- Stockpile,¹² a startup website and app, brings trading to kids, allowing them to buy fractional shares of their favorite stocks or ETFs. It lets them “start investing with just \$5” with “no hidden fees” so “kids and teens can track their stocks, create a wish list and even place trades you (the parent) can approve” all for “only 99¢ per trade with no monthly fees or account minimum.” I’m not sure of a typical child’s wherewithal but if my two youngest daughters busted open their piggy banks, they probably would not have more than \$50 between them. Maybe that’s not typical but assuming the minimum advertised account balance (\$5) is used to buy one security, then the 99¢ commission equals 19.8% of the total value. Seems as though it might be a good lesson on how to lose money! (Not to worry though, Mom or Dad can purchase a gift card to offset the transaction costs in increments as low as \$10.)

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

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

¹⁰ As of January 15, 2018

¹¹ As of January 18, 2018

¹² <https://www.stockpile.com>

¹³ *A Short History of Financial Euphoria*, by John Kenneth Galbraith

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LETTER TO SHAREHOLDERS

Continued

Here's what we don't know...

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

And could there be:

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

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

Investing In A WTF World

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

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

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

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

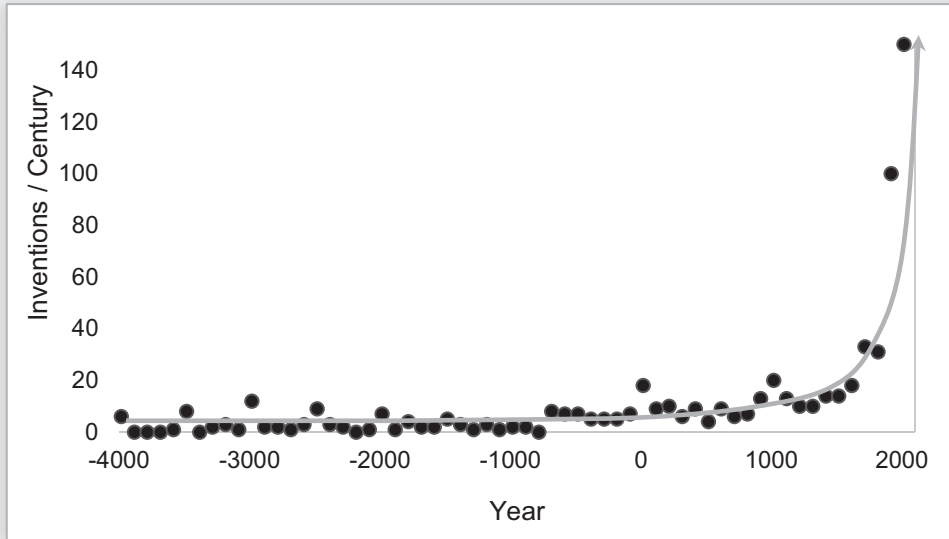
¹⁴ Source: www.coinmarketcap.com. As of January 7, 2018

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

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Continued

Accelerating Technological Change 4000 BC to 2100 AD



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

My slow appreciation that accelerating change could challenge some of the less dynamic businesses of our more traditional value investments was an error of omission. I say “my” rather than “our” because on our team, I was probably the most entrenched philosophically. Fortunately, Mark Landecker exhibited greater flexibility and, over the last number of years, has helped move our portfolio more in the direction of reasonably priced, higher quality, growing companies. We describe these in our Contrarian Value Investment Policy Statement as “Compounders — The world’s great businesses. Unquestionable competitive strength. Solid balance sheets. Shareholder-centric management.”

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

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

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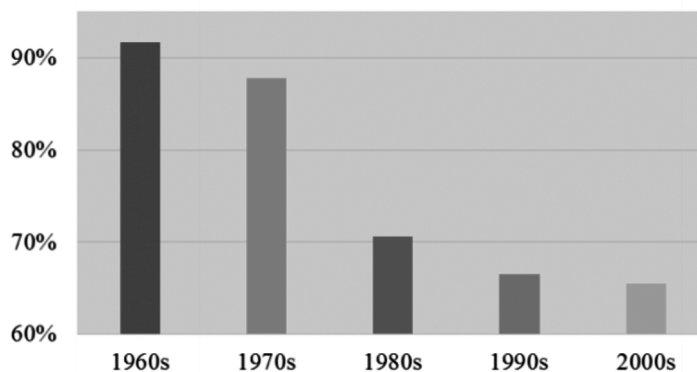
LETTER TO SHAREHOLDERS

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

Corporate lifespans are getting shorter, as can be seen in the following mortality chart¹⁷.

Likelihood of Surviving the First 5 Years of Exchange Listing



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

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

¹⁷ Vijay Govindarajan, Anup Srivastava. "Strategy When Creative Destruction Accelerates", September 7, 2016

¹⁸ Scott D. Anthony, S. Patrick Viguier and Andrew Waldeck. "Corporate Longevity: Turbulence Ahead for Large Organizations" *Innosight*, Spring 2016

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LETTER TO SHAREHOLDERS

Continued

Investing

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

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

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

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

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

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

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

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

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

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

¹⁹ Including dividends.

FPA CRESCENT FUND LETTER TO SHAREHOLDERS

Continued

We still find time to allocate resources and capital to more commercial opportunities. We find disillusion not far from our shores in Puerto Rico. During the quarter, we began to establish a position in debt issued in and by the Commonwealth through Puerto Rico General Obligation (GOs) bonds and the territory's sewer and water systems. In our view, the deeply discounted prices more than compensate for over-encumbered balance sheets and all too real challenges following Hurricane Maria. While highly uncertain, we are optimistic that recoveries can meaningfully exceed our cost under either consensual or court-directed resolution.

Closing

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

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

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

Respectfully submitted,



Steven Romick
Portfolio Manager
January 22, 2018

FPA CRESCENT FUND

The discussions of Fund investments represent the views of the Fund's managers at the time of this report and are subject to change without notice. These views may not be relied upon as investment advice or as an indication of trading intent on behalf of any First Pacific Advisors portfolio. Security examples featured are samples for presentation purposes and are intended to illustrate our investment philosophy and its application. It should not be assumed that most recommendations made in the future will be profitable or will equal the performance of the securities. This information and data has been prepared from sources believed reliable. The accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

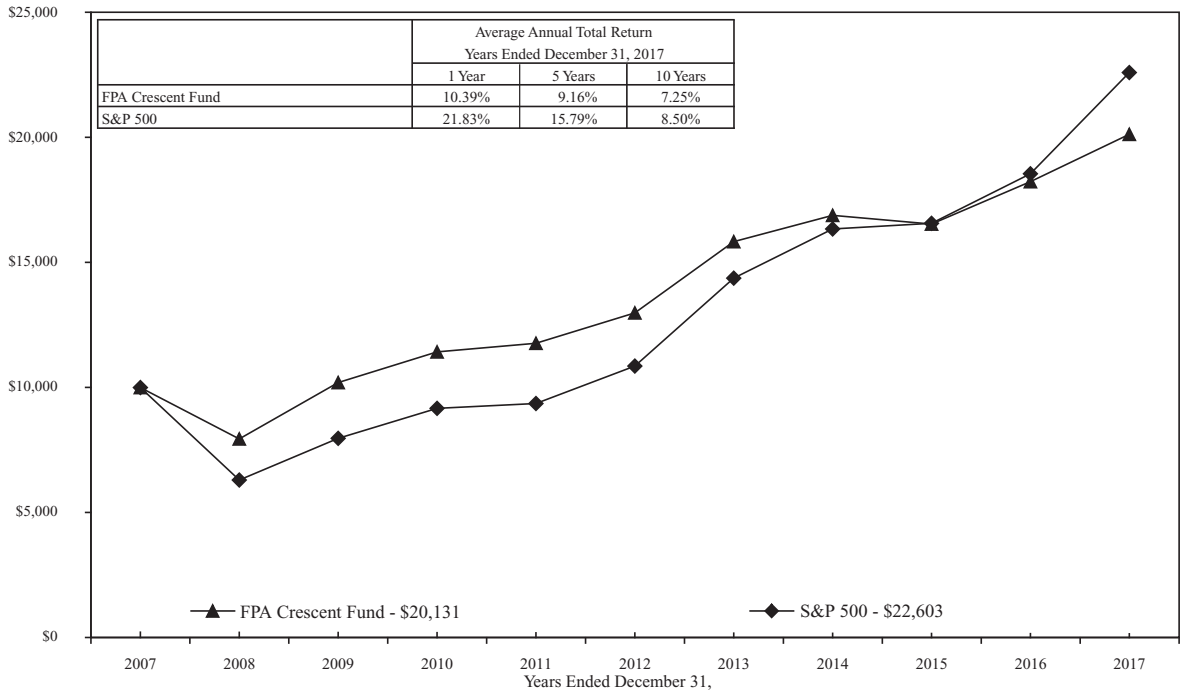
FORWARD LOOKING STATEMENT DISCLOSURE

As mutual fund managers, one of our responsibilities is to communicate with shareholders in an open and direct manner. Insofar as some of our opinions and comments in our letters to shareholders are based on our current expectations, they are considered "forward-looking statements" which may or may not prove to be accurate over the long term. While we believe we have a reasonable basis for our comments and we have confidence in our opinions, actual results may differ materially from those we anticipate. You can identify forward-looking statements by words such as "believe," "expect," "may," "anticipate," and other similar expressions when discussing prospects for particular portfolio holdings and/or the markets, generally. We cannot, however, assure future results and disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. Further, information provided in this report should not be construed as a recommendation to purchase or sell any particular security.

FPA CRESCENT FUND HISTORICAL PERFORMANCE

(Unaudited)

Change in Value of a \$10,000 Investment in FPA Crescent Fund vs. S&P 500, Consumer Price Index and 60% S&P 500/40% BC Agg for the Ten Years Ended December 31, 2017



The Standard & Poor's 500 Composite Index (S&P 500) is an unmanaged index that is generally representative of the U.S. stock market. The Consumer Price Index is an unmanaged index representing the rate of inflation of U.S. consumer prices as determined by the US Department of Labor Statistics. The Barclays Capital U.S. Aggregate Bond Index (BC Agg) is a broadbased unmanaged composite of four major subindexes: U.S. Government Index; U.S. Credit Index; U.S. Mortgage-Backed Securities Index; and U.S. Asset-Backed Securities Index (the index holds investment quality bonds); the blended benchmark is a hypothetical combination of unmanaged indices, reflecting a neutral mix of approximately 60% stocks and 40% bonds. The performance of the Fund is computed on a total return basis which includes reinvestment of all distributions. There can be no guarantee that the Consumer Price Index or other indexes will reflect the exact level of inflation at any given time. It is not possible to invest directly in an unmanaged index. Unless otherwise noted, index returns reflect the reinvestment of dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. It is not possible to invest directly in an index.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment may be worth more or less than its original cost. Current month-end performance data can be obtained by visiting the website at www.fpafunds.com or by calling toll-free, 1-800-982-4372. Information regarding the Fund's expense ratio and redemption fees can be found on pages 30 and 34. The Prospectus details the Fund's objective and policies, sales charges, and other matters of interest to prospective investors. Please read the Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by email at crm@fpafunds.com, toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.

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PORTFOLIO SUMMARY

December 31, 2017

Common Stocks	65.2%
Aircraft & Parts	7.9%
Infrastructure Software	6.9%
Diversified Banks	5.3%
Entertainment Content	4.6%
Internet Media	4.4%
Investment Companies	4.1%
Consumer Finance	2.7%
P&C Insurance	2.7%
Insurance Brokers	2.5%
Banks	2.5%
Electrical Components	2.4%
Communications Equipment	2.4%
Semiconductor Devices	2.1%
Generic Pharma	1.8%
Advertising & Marketing	1.5%
Internet Based Services	1.4%
Institutional Brokerage	1.3%
Life Science Equipment	1.1%
Containers & Packaging	1.1%
Chemicals Distribution	1.0%
Integrated Oils	1.0%
Electrical Power Equipment	0.8%
Base Metals	0.8%
Automobiles	0.7%
Specialty Chemicals	0.6%
Household Products	0.6%
Food & Drug Stores	0.5%
Exploration & Production	0.3%
Marine Shipping	0.2%
Closed End Fund	1.9%
Limited Partnerships	0.3%
Preferred Stocks	0.1%
Bonds & Debentures	22.9%
U.S. Treasuries	18.8%
Corporate Bonds & Notes	2.1%
Municipals	0.8%
Asset-Backed Securities	0.5%
Convertible Bonds	0.4%
Residential Mortgage-Backed Securities	0.2%
Corporate Bank Debt	0.1%
Options Purchased	0.4%
Short-term Investments	13.8%
Securities Sold Short	(8.7)%
Other Assets And Liabilities, Net	4.1%
Net Assets	<u>100.0%</u>

FPA CRESCENT FUND PORTFOLIO OF INVESTMENTS

December 31, 2017

COMMON STOCKS	Shares	Fair Value
AIRCRAFT & PARTS — 7.9%		
Arconic, Inc.	15,228,573	\$ 414,978,614
Esterline Technologies Corporation (a)(b)	2,630,901	196,528,305
Meggitt plc (Britain) (b)	38,965,308	253,015,613
United Technologies Corporation	4,109,350	524,229,779
		\$ 1,388,752,311
INFRASTRUCTURE SOFTWARE — 6.9%		
Microsoft Corporation	5,727,360	\$ 489,918,374
Oracle Corporation	15,311,810	723,942,377
		\$ 1,213,860,751
DIVERSIFIED BANKS — 5.3%		
Bank of America Corporation	17,128,089	\$ 505,621,187
Citigroup, Inc.	5,661,204	421,250,190
		\$ 926,871,377
ENTERTAINMENT CONTENT — 4.6%		
Naspers, Ltd. (N Shares) (South Africa)	2,918,607	\$ 808,609,320
INTERNET MEDIA — 4.4%		
Alphabet, Inc. (Class A) (a)	220,277	\$ 232,039,792
Alphabet, Inc. (Class C) (a)	220,881	231,129,878
Baidu, Inc. (ADR) (China) (a)	1,282,010	300,259,562
		\$ 763,429,232
INVESTMENT COMPANIES — 4.1%		
Groupe Bruxelles Lambert SA (Belgium)	2,851,023	\$ 307,570,402
Leucadia National Corporation	15,435,800	408,894,342
		\$ 716,464,744
CONSUMER FINANCE — 2.7%		
Ally Financial, Inc.	9,303,788	\$ 271,298,458
American Express Co.	2,049,031	203,489,269
		\$ 474,787,727
P&C INSURANCE — 2.7%		
American International Group, Inc.	7,840,680	\$ 467,147,714
INSURANCE BROKERS — 2.5%		
Aon plc (Britain)	3,299,180	\$ 442,090,120
BANKS — 2.5%		
CIT Group, Inc. (b)	8,913,170	\$ 438,795,359

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

COMMON STOCKS — Continued	<u>Shares</u>	<u>Fair Value</u>
ELECTRICAL COMPONENTS — 2.4%		
TE Connectivity, Ltd. (Switzerland)	4,470,390	\$ <u>424,865,866</u>
COMMUNICATIONS EQUIPMENT — 2.4%		
Cisco Systems, Inc.	11,070,960	\$ <u>424,017,768</u>
SEMICONDUCTOR DEVICES — 2.1%		
Analog Devices, Inc.	3,176,140	\$ 282,771,744
QUALCOMM, Inc.	1,365,211	<u>87,400,809</u>
		\$ <u>370,172,553</u>
GENERIC PHARMA — 1.8%		
Mylan NV (a)	7,425,690	\$ <u>314,180,944</u>
ADVERTISING & MARKETING — 1.5%		
WPP plc (Britain)	14,974,693	\$ <u>270,528,974</u>
INTERNET BASED SERVICES — 1.4%		
Expedia, Inc.	2,034,903	\$ <u>243,720,332</u>
INSTITUTIONAL BROKERAGE — 1.3%		
LPL Financial Holdings, Inc.	3,834,980	\$ <u>219,130,757</u>
LIFE SCIENCE EQUIPMENT — 1.1%		
Thermo Fisher Scientific, Inc.	1,042,910	\$ <u>198,027,751</u>
CONTAINERS & PACKAGING — 1.1%		
Owens-Illinois, Inc. (a)(b)	8,912,900	\$ <u>197,598,993</u>
CHEMICALS DISTRIBUTION — 1.0%		
Nexeo Solutions, Inc. (a)(b)(c)	17,691,717	\$ 160,994,625
Nexeo Solutions, Inc. (Founders Shares) (a)(b)(c)(d)(h)	2,431,709	<u>9,936,033</u>
		\$ <u>170,930,658</u>
INTEGRATED OILS — 1.0%		
Gazprom PJSC (ADR) (Russia)	12,690,400	\$ 55,785,679
Lukoil PJSC (ADR) (Russia)	1,455,100	82,905,631
Rosneft Oil Co. PJSC (GDR) (Russia)	5,711,200	<u>28,418,120</u>
		\$ <u>167,109,430</u>

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

COMMON STOCKS — Continued	<u>Shares</u>	<u>Fair Value</u>
ELECTRICAL POWER EQUIPMENT — 0.8%		
General Electric Co.	7,649,785	\$ 133,488,748
BASE METALS — 0.8%		
Alcoa Corporation(a)	914,831	\$ 49,281,946
MMC Norilsk Nickel PJSC (ADR) (Russia)	4,377,920	<u>81,691,077</u>
		<u>\$ 130,973,023</u>
AUTOMOBILES — 0.7%		
Porsche Automobil Holding SE (Germany)	1,562,200	<u>\$ 130,553,454</u>
SPECIALTY CHEMICALS — 0.6%		
Axalta Coating Systems Ltd. (a)	3,059,930	<u>\$ 99,019,335</u>
HOUSEHOLD PRODUCTS — 0.6%		
Unilever NV (CVA) (Britain)	1,756,570	<u>\$ 98,900,024</u>
FOOD & DRUG STORES — 0.5%		
Jardine Strategic Holdings, Ltd. (Hong Kong)	2,067,360	\$ 81,826,109
Lenta, Ltd. (GDR) (Russia) (a)(e)(h)	1,848,549	<u>10,758,555</u>
		<u>\$ 92,584,664</u>
EXPLORATION & PRODUCTION — 0.3%		
Occidental Petroleum Corporation	620,540	<u>\$ 45,708,976</u>
MARINE SHIPPING — 0.2%		
Sound Holding FP (Luxembourg) (a)(b)(c)(d)(h)	1,146,250	<u>\$ 28,084,045</u>
TOTAL COMMON STOCKS — 65.2% (Cost \$7,278,742,391)		<u>\$11,400,404,950</u>
CLOSED END FUND — 1.9%		
Altaba, Inc. (a) (Cost \$197,955,067)	4,847,270	<u>\$ 338,581,809</u>
LIMITED PARTNERSHIPS		
U.S. Farming Realty Trust, L.P. (c)(d)(h)	350,000	\$ 38,798,165
U.S. Farming Realty Trust II, L.P. (c)(d)(h)	120,000	12,210,864
WLRS Fund I LLC (a)(b)(c)(d)(h)	968	<u>6,954,505</u>
TOTAL LIMITED PARTNERSHIPS — 0.3% (Cost \$48,044,266)		<u>\$ 57,963,534</u>

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

	Shares or Principal Amount	Fair Value
PREFERRED STOCK — 0.1%		
INTEGRATED OILS — 0.1%		
Surgutneftegas OJSC (Preference Shares) (Russia) (Cost \$27,221,319)	39,322,900	\$ 19,188,763
 BONDS & DEBENTURES		
RESIDENTIAL MORTGAGE-BACKED SECURITIES		
NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATION — 0.2%		
Stanwich Mortgage Loan Trust Series 2012-2 A — 0.00%		
3/15/2047 (d)(e)(f)(h)	\$ 2,455,193	\$ 1,043,457
Stanwich Mortgage Loan Trust Series 2011-2 A — 0.00%		
9/15/2050 (d)(e)(f)(h)	4,454,412	2,384,019
Stanwich Mortgage Loan Trust Series 2012-4 A — 0.00%		
6/15/2051 (d)(e)(f)(h)	4,445,623	2,044,986
Stanwich Mortgage Loan Trust Series 2011-1 A — 0.197%		
8/15/2050 (d)(e)(f)(h)	5,021,385	2,648,424
Stanwich Mortgage Loan Trust Series 2009-2 A — 0.613%		
2/15/2049 (d)(e)(f)(h)	642,918	287,513
Stanwich Mortgage Loan Trust Series 2010-1 A — 1.084%		
9/30/2047 (d)(e)(f)(h)	1,030,065	521,007
Stanwich Mortgage Loan Trust Series 2010-4 A — 1.287%		
8/31/2049 (d)(e)(f)(h)	2,632,554	1,329,439
Stanwich Mortgage Loan Trust Series 2010-3 A — 1.346%		
7/31/2038 (d)(e)(f)(h)	2,642,250	1,321,918
Stanwich Mortgage Loan Trust Series 2010-2 A — 1.47%		
2/28/2057 (d)(e)(f)(h)	5,021,652	2,531,917
Sunset Mortgage Loan Co. LLC 2015-NPL1 A — 4.459%		
9/18/2045 (e)(f)(g)	13,653,773	13,762,639
TOTAL RESIDENTIAL MORTGAGE-BACKED SECURITIES — 0.2%		
(Cost \$27,592,999)		\$ 27,875,319
 ASSET-BACKED SECURITIES		
ASSET-BACKED SECURITIES — 0.2%		
RELP 8 — 10.00% 4/19/2018 (c)(d)(h)	\$ 6,052,671	\$ 6,052,671
RELP 10 — 9.75% 2/20/2018 (c)(d)(h)	3,891,210	3,891,210
RELP 11 — 11.75% 8/4/2018 (c)(d)(h)	33,251,641	33,251,641
		\$ 43,195,522

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

BONDS & DEBENTURES — Continued	Principal Amount	Fair Value
OTHER — 0.3%		
Ship Loan Participation — 7.80% 12/23/2019 (c)(d)(h)	\$ 39,618,598	\$ 39,618,598
Ship Loan Participation II — 11.00% 9/10/2018 (c)(d)(h)	7,756,992	<u>7,756,992</u>
		<u>\$ 47,375,590</u>
 TOTAL ASSET-BACKED SECURITIES — 0.5%		
(Cost \$90,571,112)		<u>\$ 90,571,112</u>
 CORPORATE BONDS & NOTES		
BASIC MATERIALS — 0.2%		
Glencore Finance Canada, Ltd. — 4.25% 10/25/2022 (e)	\$ 8,150,000	\$ 8,524,229
Glencore Funding LLC — 2.875% 4/16/2020 (e)	9,100,000	9,138,394
Glencore Funding LLC — 4.625% 4/29/2024 (e)	4,700,000	<u>4,942,313</u>
		<u>\$ 22,604,936</u>
 ENERGY — 0.7%		
California Resources Corporation — 5.00% 1/15/2020	\$ 2,171,000	\$ 1,986,465
California Resources Corporation — 5.50% 9/15/2021	8,984,000	7,816,080
California Resources Corporation — 6.00% 11/15/2024	2,171,000	1,519,700
California Resources Corporation 2nd Lien — 8.00% 12/15/2022 (e)	35,750,000	29,622,450
CONSOL Energy, Inc. — 8.00% 4/1/2023	77,110,000	82,652,281
Southwestern Energy Co. — 4.10% 3/15/2022	3,800,000	<u>3,745,470</u>
		<u>\$ 127,342,446</u>
 FINANCIAL — 0.2%		
Walter Investment Management Corporation — 7.875% 12/15/2021	\$ 53,600,000	<u>\$ 32,193,500</u>
 INDUSTRIAL — 1.0%		
Bombardier, Inc. — 5.75% 3/15/2022 (e)	\$ 13,800,000	\$ 13,558,500
Bombardier, Inc. — 6.00% 10/15/2022 (e)	12,670,000	12,448,275
Bombardier, Inc. — 6.125% 1/15/2023 (e)	29,534,000	29,017,155
Bombardier, Inc. — 7.45% 5/1/2034 (e)	5,800,000	5,698,500
Bombardier, Inc. — 7.50% 3/15/2025 (e)	82,750,000	83,577,500
Bombardier, Inc. — 7.75% 3/15/2020 (e)	28,058,000	<u>30,162,350</u>
		<u>\$ 174,462,280</u>
 TOTAL CORPORATE BONDS & NOTES — 2.1%		
(Cost \$297,879,731)		<u>\$ 356,603,162</u>

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

BONDS & DEBENTURES — Continued	Principal Amount	Fair Value
CORPORATE BANK DEBT — 0.1%		
Walter Investment Management Corporation, 3M LIBOR + 3.75% — 5.319% 12/18/2020 (c)(f) (Cost \$13,377,966)	\$ 15,902,202	\$ 15,173,404
 CONVERTIBLE BONDS		
Navistar International Corporation — 4.50% 10/15/2018	\$ 22,938,000	\$ 23,669,149
Navistar International Corporation — 4.75% 4/15/2019	34,244,000	37,069,130
Walter Investment Management Corporation — 4.50% 11/1/2019	28,841,000	2,884,100
TOTAL CONVERTIBLE BONDS — 0.4% (Cost \$77,376,596)		\$ 63,622,379
 MUNICIPALS		
Commonwealth of Puerto Rico GO, Series 2012 A, (REF-PUBLIC IMPT-SER A), — 5.00% 7/1/2041	\$ 3,585,000	\$ 806,625
Commonwealth of Puerto Rico GO, Series 2012 A, (REF-PUBLIC IMPT-SER A), — 5.125% 7/1/2037	20,894,000	4,701,150
Commonwealth of Puerto Rico GO, Series 2012 A, (REF-PUBLIC IMPT-SER A), — 5.50% 7/1/2039	19,200,000	4,320,000
Commonwealth of Puerto Rico GO, Series 2014 A, (SER A), — 8.00% 7/1/2035	122,480,000	29,089,000
Puerto Rico Commonwealth Aqueduct & Sewer Authority Rev., Series 2012 A, (SR LIEN-SER A), — 5.00% 7/1/2021	7,070,000	4,356,888
Puerto Rico Commonwealth Aqueduct & Sewer Authority Rev., Series 2012 A, (SR LIEN-SER A), — 5.00% 7/1/2022	3,883,000	2,392,899
Puerto Rico Commonwealth Aqueduct & Sewer Authority Rev., Series 2012 A, (SR LIEN-SER A), — 5.00% 7/1/2033	25,194,000	15,525,802
Puerto Rico Commonwealth Aqueduct & Sewer Authority Rev., Series 2012 A, (SR LIEN-SER A), — 5.125% 7/1/2037	14,598,000	8,996,018
Puerto Rico Commonwealth Aqueduct & Sewer Authority Rev., Series 2012 A, (SR LIEN-SER A), — 5.25% 7/1/2029	9,753,000	6,010,286
Puerto Rico Commonwealth Aqueduct & Sewer Authority Rev., Series 2012 A, (SR LIEN-SER A), — 5.25% 7/1/2042	93,814,000	57,812,877
Puerto Rico Commonwealth Aqueduct & Sewer Authority Rev., Series 2012 A, (SR LIEN-SER A), — 5.75% 7/1/2037	16,607,000	10,234,064
Puerto Rico Commonwealth Aqueduct & Sewer Authority Rev., Series 2012 A, (SR LIEN-SER A), — 6.00% 7/1/2047	3,635,000	2,250,065
TOTAL MUNICIPALS — 0.8% (Cost \$155,876,643)		\$ 146,495,674

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

BONDS & DEBENTURES — Continued	Principal Amount	Fair Value
U.S. TREASURIES		
U.S. Treasury Bills — 0.00% 1/4/2018	\$250,000,000	\$ 249,983,550
U.S. Treasury Notes — 0.625% 4/30/2018	200,000,000	199,468,760
U.S. Treasury Notes — 0.75% 1/31/2018	275,000,000	274,849,603
U.S. Treasury Notes — 0.75% 2/28/2018	230,000,000	229,784,375
U.S. Treasury Notes — 0.75% 3/31/2018	325,000,000	324,454,097
U.S. Treasury Notes — 0.75% 4/15/2018	150,000,000	149,730,465
U.S. Treasury Notes — 0.75% 7/31/2018	291,000,000	289,573,431
U.S. Treasury Notes — 0.875% 1/15/2018	259,000,000	258,939,290
U.S. Treasury Notes — 0.875% 5/31/2018	230,000,000	229,460,926
U.S. Treasury Notes — 1.00% 3/15/2018	325,000,000	324,796,875
U.S. Treasury Notes — 1.125% 6/15/2018	200,000,000	199,660,160
U.S. Treasury Notes — 1.50% 8/31/2018	300,000,000	299,601,570
U.S. Treasury Notes — 3.50% 2/15/2018	260,000,000	260,644,930
TOTAL U.S. TREASURIES — 18.8% (Cost \$3,294,066,554)		<u>\$ 3,290,948,032</u>
TOTAL BONDS & DEBENTURES — 22.9% (Cost \$3,956,741,601) ...		<u>\$ 3,991,289,082</u>
TOTAL PURCHASED OPTIONS (h) — 0.4% (Premiums Paid \$74,058,980)		<u>\$ 72,534,235</u>
TOTAL INVESTMENT SECURITIES — 90.8% (Cost \$11,582,763,624)		<u>\$15,879,962,373</u>
SHORT-TERM INVESTMENTS — 13.8%		
Apple, Inc.		
— 1.25% 1/25/2018	\$189,860,000	\$ 189,701,783
— 1.25% 1/26/2018	89,000,000	88,922,743
— 1.26% 1/19/2018	119,250,000	119,174,751
— 1.29% 1/31/2018	60,000,000	59,935,500
— 1.29% 2/2/2018	30,000,000	29,965,600
— 1.31% 2/6/2018	25,000,000	24,967,250
— 1.38% 2/7/2018	100,000,000	99,858,167
— 1.38% 2/8/2018	97,500,000	97,357,975
— 1.48% 2/14/2018	85,000,000	84,846,245
— 1.48% 2/15/2018	85,000,000	84,842,750
— 1.49% 2/9/2018	35,000,000	34,943,504

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

SHORT-TERM INVESTMENTS — Continued	Principal Amount	Fair Value
Coca-Cola Co. (The)		
— 1.22% 1/10/2018	\$ 25,000,000	\$ 24,992,375
— 1.30% 1/17/2018	50,000,000	49,971,111
— 1.30% 1/18/2018	25,250,000	25,234,499
— 1.30% 1/23/2018	8,360,000	8,353,358
— 1.32% 2/6/2018	50,000,000	49,934,000
Exxon Mobil Corp.		
— 1.19% 1/16/2018	80,000,000	79,960,333
— 1.19% 1/18/2018	80,000,000	79,955,044
— 1.23% 1/23/2018	90,000,000	89,932,350
— 1.23% 1/24/2018	100,000,000	99,921,417
— 1.29% 1/9/2018	75,000,000	74,978,500
— 1.42% 2/1/2018	100,000,000	99,877,722
— 1.44% 2/13/2018	100,000,000	99,828,000
Microsoft Corp.		
— 1.23% 1/4/2018	128,400,000	128,386,839
— 1.24% 1/5/2018	160,000,000	159,977,956
— 1.24% 1/11/2018	66,500,000	66,477,094
The Proctor Gamble & Co.		
— 1.24% 1/10/2018	24,801,000	24,793,312
— 1.24% 1/11/2018	68,500,000	68,476,406
— 1.25% 1/26/2018	42,000,000	41,963,542
— 1.27% 1/30/2018	55,700,000	55,643,016
— 1.30% 2/1/2018	64,500,000	64,427,671
Wal-Mart Stores, Inc. — 1.21% 1/2/2018	30,000,000	29,998,992
State Street Bank Repurchase Agreement — 0.20% 1/2/2018 (Dated 12/29/2017, repurchase price of \$69,522,545, collateralized by \$73,185,000 principal amount U.S. Treasury Notes — 1.125% 2021, fair value \$70,913,045)	69,521,000	69,521,000
TOTAL SHORT-TERM INVESTMENTS (Cost \$2,407,120,805)		<u>\$ 2,407,120,805</u>
TOTAL INVESTMENTS — 104.6% (Cost \$13,989,884,429)		<u>\$18,287,083,178</u>

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

SECURITIES SOLD SHORT	Shares	Fair Value
COMMON STOCKS SOLD SHORT — (8.7)%		
Alibaba Group Holding Ltd. (ADR) (China) (a)	(1,426,540)	\$ (245,978,292)
iShares Russell 2000 ETF	(944,720)	(144,032,011)
Pennsylvania Real Estate Investment Trust	(600,700)	(7,142,323)
Pitney Bowes, Inc.	(401,000)	(4,483,180)
Sabra Health Care REIT, Inc.	(17,350)	(325,660)
Tencent Holdings, Ltd. (China)	(18,095,400)	(936,580,142)
Ventas, Inc.	(61,800)	(3,708,618)
Volkswagen AG (Preference Shares) (Germany)	(578,602)	(114,929,370)
WW Grainger, Inc.	(96,049)	(22,691,576)
Yahoo Japan Corporation (Japan)	(7,538,000)	(34,535,268)
TOTAL COMMON STOCKS SOLD SHORT (Proceeds \$743,383,458) ..		<u>\$ (1,514,406,440)</u>
Other Assets and Liabilities, net — 4.1%		712,070,154
NET ASSETS — 100.0%		<u><u>\$17,484,746,892</u></u>

- (a) Non-income producing security.
- (b) Affiliated Security (See Note 11 of the Notes to Financial Statements).
- (c) Restricted securities. These restricted securities constituted 2.07% of total net assets at December 31, 2017, most of which are considered liquid by the Adviser. These securities are not registered and may not be sold to the public. There are legal and/or contractual restrictions on resale. The Fund does not have the right to demand that such securities be registered. The values of these securities are determined by valuations provided by pricing services, brokers, dealers, market makers, or in good faith under policies adopted by authority of the Fund's Board of Trustees.
- (d) These securities have been valued in good faith under policies adopted by authority of the Board of Trustee in accordance with the Fund's fair value procedures. These securities constituted 1.15% of total net assets at December 31, 2017.
- (e) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (f) Variable/Floating Rate Security — The rate shown is based on the latest available information as of December 31, 2017. For Senior Loan Notes, the rate shown may represent a weighted average interest rate. Certain variable rate securities are not based on a published rate and spread but are determined by the issuer or agent and are based on current market conditions. These securities do not indicate a reference rate and spread in their description.
- (g) Step Coupon — Coupon rate increases in increments to maturity. Rate disclosed is as of December 31, 2017.
- (h) Investments categorized as significant unobservable input (Level 3) (See Note 8 of the Notes to Financial Statements).

See notes to financial statements.

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

Foreign Currency Exchange Contracts

<u>Counterparty</u>	<u>Currency Bought</u>	<u>Currency Sold</u>	<u>Settlement Date</u>	<u>Unrealized Appreciation/ (Depreciation)</u>
Barclays Bank PLC	USD105,911,920	EUR88,725,000	3/27/2018	<u><u>\$(1,083,282)</u></u>

Purchased Options

<u>Description</u>	<u>Pay/ Receive Floating Rate</u>	<u>Floating Rate Index</u>	<u>Exercise Rate</u>	<u>Expiration Date</u>	<u>Counterparty</u>	<u>Notional Amount</u>	<u>Premium</u>	<u>Value</u>
Call — 30-Year Interest Rate Swap	Receive	3-Month USD-LIBOR	0.01%	5/22/2025	Barclays Bank PLC	\$100,000,000	\$21,930,000	\$19,124,300
Call — 30-Year Interest Rate Swap	Receive	3-Month USD-LIBOR	0.01%	7/14/2025	Barclays Bank PLC	90,081,096	18,962,071	16,758,057
Call — 30-Year Interest Rate Swap	Receive	3-Month USD-LIBOR	0.01%	7/13/2027	Morgan Stanley	89,879,161	18,542,071	17,802,455
							<u><u>\$59,434,142</u></u>	<u><u>\$53,684,812</u></u>
<u>Description</u>		<u>Exercise Price</u>	<u>Expiration Date</u>	<u>Counterparty</u>	<u>Notional Amount</u>	<u>Premium</u>	<u>Value</u>	
Put — JPY FX		\$95.00	3/24/2022	Barclays Bank PLC	\$194,350,000	<u><u>\$14,624,838</u></u>	<u><u>\$18,849,423</u></u>	

See notes to financial statements.

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS — RESTRICTED SECURITIES

December 31, 2017

<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a % of Net Assets</u>
Nexeo Solutions, Inc.	06/09/2016	\$155,231,992	\$160,994,625	0.92%
Nexeo Solutions, Inc. (Founders Shares)	06/09/2016	13,179,863	9,936,033	0.06%
RELP 8 — 10.00% 4/19/2018	10/16/2014, 12/01/2014, 01/07/2015, 02/02/2015, 03/02/2015, 04/02/2015, 05/01/2015, 06/01/2015, 07/01/2015, 07/10/2015, 07/28/2015, 08/01/2015, 09/01/2015, 09/03/2015, 09/30/2015, 10/01/2015, 10/26/2015, 11/01/2015, 12/01/2015, 01/01/2016, 02/01/2016, 02/03/2016, 03/01/2016, 03/23/2016, 04/01/2016, 05/01/2016, 06/01/2016, 07/01/2016, 08/01/2016, 09/01/2016, 09/23/2016, 10/03/2016, 10/19/2016, 10/17/2017	6,052,671	6,052,671	0.03%
RELP 10 — 9.75% 2/20/2018	01/15/2016, 02/15/2016, 02/23/2016, 03/15/2016, 03/22/2016, 04/12/2016, 04/15/2016, 05/09/2016, 05/15/2016, 05/31/2016, 06/15/2016, 07/01/2016, 07/15/2016, 07/25/2016, 08/15/2016, 08/22/2016, 09/15/2016, 09/30/2016, 10/15/2016, 11/11/2016, 11/15/2016, 12/15/2016	3,891,210	3,891,210	0.02%

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS — RESTRICTED SECURITIES (Continued)

December 31, 2017

<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a % of Net Assets</u>
REL P 11 — 11.75% 8/4/2018	08/03/2015, 10/01/2015, 11/01/2015, 12/01/2015, 01/01/2016, 02/01/2016, 03/01/2016, 04/01/2016, 05/01/2016, 06/01/2016, 07/01/2016, 08/01/2016, 09/01/2016, 10/01/2016, 11/01/2016, 12/01/2016 01/01/2017, 02/01/2017, 02/03/2017, 02/28/2017, 03/02/2017, 03/27/2017, 04/01/2017, 05/01/2017, 06/01/2017, 06/07/2017, 07/01/2017, 07/13/2017, 08/01/2017	\$ 33,251,641	\$ 33,251,641	0.19%
Ship Loan Participation — 7.80% 12/23/2019	12/22/2014	39,618,598	39,618,598	0.23%
Ship Loan Participation II — 11.00% 9/10/2018	09/08/2015, 11/29/2016, 06/07/2017, 09/08/2017	7,756,992	7,756,992	0.04%
Sound Holding FP (Luxembourg) U.S. Farming Realty Trust, L.P.	10/07/2013 11/26/2010, 01/31/2011, 03/09/2011, 04/15/2011, 05/10/2011, 06/27/2011, 08/15/2011, 10/17/2011, 10/28/2011, 11/28/2011, 01/03/2012, 01/26/2012, 04/05/2012, 07/13/2012, 12/07/2012, 08/01/2013	68,546,025	28,084,045	0.16%
U.S. Farming Realty Trust II, L.P.	12/24/2012, 04/29/2013, 06/17/2013, 10/28/2013, 01/14/2014, 04/22/2014, 06/25/2014, 09/09/2014, 10/08/2014, 12/18/2014, 06/18/2015, 06/18/2015, 07/29/2015, 07/29/2015	28,202,539	38,798,165	0.22%
WLRS Fund I LLC	06/09/2016	11,336,412	12,210,864	0.07%
		8,505,315	6,954,505	0.04%

FPA CRESCENT FUND
PORTFOLIO OF INVESTMENTS — RESTRICTED SECURITIES (Continued)

December 31, 2017

<u>Issuer</u>	<u>Acquisition Date(s)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a % of Net Assets</u>
Walter Investment Management Corporation 5.319% 12/18/2020	05/12/2016, 06/09/2016, 06/15/2016, 06/20/2016, 06/21/2016	\$ 13,865,323	\$ 15,173,404	0.09%
TOTAL RESTRICTED SECURITIES		<u>\$389,438,581</u>	<u>\$362,722,753</u>	<u>2.07%</u>
See notes to financial statements.				

FPA CRESCENT FUND

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2017

ASSETS

Investment securities — at fair value (identified cost \$10,357,987,378)	\$14,588,054,895
Investments in affiliates at fair value (identified cost \$1,224,776,246)	1,291,907,478
Short-term investments — at amortized cost (maturities 60 days or less)	2,407,120,805
Deposits for securities sold short	744,285,947
Cash	776
Receivable for:	
Dividends and interest	36,122,533
Capital Stock sold	12,536,085
Investment securities sold	<u>21,332,441</u>
Total assets	<u>19,101,360,960</u>

LIABILITIES

Payable for:	
Due to broker	13,242,212
Securities sold short, at market value (proceeds \$743,383,458)	1,514,406,440
Investment securities purchased	59,434,142
Advisory fees	14,907,995
Capital Stock repurchased	9,244,942
Accrued expenses and other liabilities	4,295,055
Unrealized loss on forward foreign currency contracts	<u>1,083,282</u>
Total liabilities	<u>1,616,614,068</u>

NET ASSETS \$17,484,746,892

SUMMARY OF SHAREHOLDERS' EQUITY

Capital Stock — no par value; unlimited authorized shares;	
503,985,624 outstanding shares	\$13,935,061,815
Undistributed net realized gain	92,768,966
Accumulated net investment loss	(68,201,822)
Unrealized appreciation of investments	<u>3,525,117,933</u>

NET ASSETS \$17,484,746,892

NET ASSET VALUE

Offering and redemption price per share	<u>\$34.69</u>
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See notes to financial statements.

FPA CRESCENT FUND

STATEMENT OF OPERATIONS

For the Year Ended December 31, 2017

INVESTMENT INCOME

Dividends (net of foreign taxes withheld of \$4,864,429)	\$ 152,532,088
Interest	140,796,249
Income from affiliates	<u>13,456,999</u>
Total investment income	<u>306,785,336</u>

EXPENSES

Advisory fees	174,215,225
Short sale dividend expense	5,564,166
Transfer agent fees and expenses	7,188,290
Custodian fees	1,001,076
Administrative services fees	890,413
Professional fees	804,433
Reports to shareholders	695,233
Trustee fees and expenses	480,270
Legal fees	230,778
Filing fees	128,244
Audit and tax services fees	97,877
Other	<u>163,540</u>
Total expenses	<u>191,459,545</u>
Net expenses	<u>191,459,545</u>
Net investment income	<u>115,325,791</u>

NET REALIZED AND UNREALIZED GAIN (LOSS)

Net realized gain (loss) on:	
Investments	582,355,326
Investments in affiliates	1,560,943
Investment securities sold short	(168,404,054)
Investments in Forward Foreign Currency Contracts	(14,378,182)
Foreign currency transactions	211,067
Net change in unrealized appreciation (depreciation) of:	
Investments	1,698,286,905
Investments in affiliates	105,126,776
Investment securities sold short	(611,976,474)
Investments in Forward Foreign Currency Contracts	(25,684)
Translation of foreign currency denominated amounts	<u>788,846</u>
Net realized and unrealized gain	<u>1,593,545,469</u>

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS \$1,708,871,260

See notes to financial statements.

FPA CRESCENT FUND

STATEMENTS OF CHANGES IN NET ASSETS

	<u>Year Ended</u> <u>December 31, 2017</u>	<u>Year Ended</u> <u>December 31, 2016</u>
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income	\$ 115,325,791	\$ 128,861,961
Net realized gain	401,345,100	723,447,334
Net change in unrealized appreciation	<u>1,192,200,369</u>	<u>701,692,687</u>
Net increase in net assets resulting from operations	<u>1,708,871,260</u>	<u>1,554,001,982</u>
Distributions to shareholders from:		
Net investment income	(170,034,103)	(141,761,297)
Net realized capital gains	<u>(474,105,805)</u>	<u>(660,533,612)</u>
Total distributions	<u>(644,139,908)</u>	<u>(802,294,909)</u>
Capital Stock transactions:		
Proceeds from Capital Stock sold	2,963,748,955	2,320,886,124
Proceeds from shares issued to shareholders upon reinvestment of dividends and distributions	554,255,340	702,052,272
Cost of Capital Stock repurchased	<u>(3,653,023,894)*</u>	<u>(5,339,447,889)*</u>
Net decrease from Capital Stock transactions	<u>(135,019,599)</u>	<u>(2,316,509,493)</u>
Total change in net assets	929,711,753	(1,564,802,420)
NET ASSETS		
Beginning of Year	<u>16,555,035,139</u>	<u>18,119,837,559</u>
End of Year	<u>\$17,484,746,892</u>	<u>\$16,555,035,139</u>
CHANGE IN CAPITAL STOCK OUTSTANDING		
Shares of Capital Stock sold	86,944,211	73,991,731
Shares issued to shareholders upon reinvestment of dividends and distributions	16,125,013	21,525,181
Shares of Capital Stock repurchased	<u>(106,749,276)</u>	<u>(171,324,508)</u>
Change in Capital Stock outstanding	<u>(3,680,052)</u>	<u>(75,807,596)</u>

* Net of redemption fees of \$331,976 and \$7,860,248 for the year ended December 31, 2017 and year ended December 31, 2016, respectively.

See notes to financial statements.

FPA CRESCENT FUND

FINANCIAL HIGHLIGHTS

Selected Data for Each Share of Capital Stock Outstanding Throughout Each Year

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Per share operating performance:					
Net asset value at beginning of year	<u>\$32.61</u>	<u>\$31.06</u>	<u>\$33.74</u>	<u>\$32.96</u>	<u>\$29.29</u>
Income from investment operations:					
Net investment income*	\$ 0.23	\$ 0.24	\$ 0.18	\$ 0.25	\$ 0.14
Net realized and unrealized gain (loss) on investment securities	<u>3.14</u>	<u>2.93</u>	<u>(0.89)</u>	<u>1.94</u>	<u>6.02</u>
Total from investment operations	<u>\$ 3.37</u>	<u>\$ 3.17</u>	<u>\$ (0.71)</u>	<u>\$ 2.19</u>	<u>\$ 6.16</u>
Less distributions:					
Dividends from net investment income .	\$ (0.34)	\$ (0.29)	\$ (0.31)	\$ (0.31)	\$ (0.21)
Distributions from net realized capital gains	<u>(0.95)</u>	<u>(1.34)</u>	<u>(1.66)</u>	<u>(1.10)</u>	<u>(2.28)</u>
Total distributions	<u>\$ (1.29)</u>	<u>\$ (1.63)</u>	<u>\$ (1.97)</u>	<u>\$ (1.41)</u>	<u>\$ (2.49)</u>
Redemption fees	<u>—**</u>	<u>0.01</u>	<u>—**</u>	<u>—**</u>	<u>—**</u>
Net asset value at end of year	<u>\$34.69</u>	<u>\$32.61</u>	<u>\$31.06</u>	<u>\$33.74</u>	<u>\$32.96</u>
Total investment return	10.39%	10.25%	(2.06)%	6.64%	21.95%
Ratios/supplemental data:					
Net assets, end of year (in \$000's)	\$17,484,747	\$16,555,035	\$18,119,838	\$19,983,836	\$15,903,874
Ratio to average net assets:					
Expenses	1.10%‡	1.09%‡	1.11%‡	1.20%‡	1.23%‡
Net investment income	0.66%	0.77%	0.53%	0.45%	0.34%
Portfolio turnover rate	18%	35%	48%	31%	22%

* Per share amount is based on average shares outstanding.

** Rounds to less than \$0.01 per share.

‡ For the periods ended December 31, 2017, December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013, the expense ratio includes short sale dividend expense equal to 0.03%, 0.02%, 0.02%, 0.05%, 0.09% of average net assets, respectively.

See notes to financial statements.

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 — Significant Accounting Policies

FPA Crescent Fund (the “Fund”), a series of the FPA Funds Trust, is registered under the Investment Company Act of 1940 as an open-end, diversified, management investment company. The Fund’s investment objective is to seek to generate equity-like returns over the long-term, take less risk than the market and avoid permanent impairment of capital. The Fund qualifies as an investment company pursuant to Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) No. 946, Financial Services — Investment Companies. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

A. Security Valuation

The Fund’s investments are reported at fair value as defined by accounting principles generally accepted in the United States of America, (“U.S. GAAP”). The Fund generally determines its net asset value as of approximately 4:00 p.m. New York time each day the New York Stock Exchange is open. Further discussion of valuation methods, inputs and classifications can be found under Disclosure of Fair Value Measurements.

B. Securities Transactions and Related Investment Income

Securities transactions are accounted for on the date the securities are purchased or sold. Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income and expenses are recorded on an accrual basis. The books and records of the Fund are maintained in U.S. dollars as follows: (1) the foreign currency market value of investment securities, and other assets and liabilities stated in foreign currencies, are translated using the daily spot rate; and (2) purchases, sales, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. The resultant exchange gains and losses are included in net realized or net unrealized gain (loss) in the statement of operations. A detailed listing of outstanding currency transactions is included in the Portfolio of Investments, in Investment Securities in the Statement of Assets and Liabilities and in Disclosure of Fair Value Measurements.

C. Use of Estimates

The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

D. Recent Accounting Pronouncements

In March 2017, the FASB issued Accounting Standards (ASU) No. Update 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public entities this update will be effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. Management is currently evaluating the impact of this new guidance on the Fund’s financial statements.

NOTE 2 — Risk Considerations

Investing in the Fund may involve certain risks including, but not limited to, those described below.

Market Risk: Because the values of the Fund’s investments will fluctuate with market conditions, so will the value of your investment in the Fund. You could lose money on your investment in the Fund or the Fund could underperform other investments.

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

Common Stocks and Other Securities (Long): The prices of common stocks and other securities held by the Fund may decline in response to certain events taking place around the world, including; those directly involving companies whose securities are owned by the Fund; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations.

Common Stocks and Other Securities (Short): The prices of common stocks and other securities sold short rise between the date of the short sale and the date on which the Fund replaces the borrowed security. In addition, the Fund repays the person that lent it the security for any interest or dividends that may have accrued.

Interest Rate Risk: The values of, and the income generated by, most debt securities held by the Fund may be affected by changing interest rates and by changes in the effective maturities and credit rating of these securities. For example, the value of debt securities in the Fund's portfolio generally will decline when interest rates rise and increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, call or refinance a security before its stated maturity, which may result in the Fund having to reinvest the proceeds in lower yielding securities.

Credit Risk: The values of any of the Fund's investments may also decline in response to events affecting the issuer or its credit rating. The lower rated debt securities in which the Fund may invest are considered speculative and are generally subject to greater volatility and risk of loss than investment grade securities, particularly in deteriorating economic conditions. The Fund invests a significant portion of its assets in securities of issuers that hold mortgage-and asset-backed securities and direct investments in securities backed by commercial and residential mortgage loans and other financial assets. The value and related income of these securities is sensitive to changes in economic conditions, including delinquencies and/or defaults. Though the Fund has not been adversely impacted, continuing shifts in the market's perception of credit quality on securities backed by commercial and residential mortgage loans and other financial assets may result in increased volatility of market price and periods of illiquidity that can negatively impact the valuation of certain securities held by the Fund.

Repurchase Agreements: Repurchase agreements permit the Fund to maintain liquidity and earn income over periods of time as short as overnight. Repurchase agreements held by the Fund are fully collateralized by U.S. Government securities, or securities issued by U.S. Government agencies, or securities that are within the three highest credit categories assigned by established rating agencies (Aaa, Aa, or A by Moody's or AAA, AA or A by Standard & Poor's) or, if not rated by Moody's or Standard & Poor's, are of equivalent investment quality as determined by the Adviser. Such collateral is in the possession of the Fund's custodian. The collateral is evaluated daily to ensure its market value equals or exceeds the current market value of the repurchase agreements including accrued interest. In the event of default on the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation.

The Fund may enter into repurchase agreements, under the terms of a Master Repurchase Agreement ("MRA"). The MRA permits the Fund, under certain circumstances including an event of default (such as bankruptcy or insolvency), to offset payables and/or receivables under the MRA with collateral held and/or posted to the counterparty and create one single net payment due to or from the Fund. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against such a right of offset in the event of a MRA counterparty's bankruptcy or insolvency. Pursuant to the terms of the MRA, the Fund receives securities as collateral with a market value in excess of the repurchase price to be received by the Fund upon the maturity of the repurchase transaction. Upon a bankruptcy or insolvency of the MRA counterparty, the Fund recognizes a liability with respect to such excess collateral to reflect the Fund's obligation under bankruptcy law to return the excess to the counterparty. Repurchase agreements outstanding at the end of the period are listed in the Fund's Portfolio of Investments.

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

NOTE 3 — Purchases and Sales of Investment Securities

Cost of purchases of investment securities (excluding short-term investments) aggregated \$2,526,368,604 for the year ended December 31, 2017. The proceeds and cost of securities sold resulting in net realized gains of \$415,512,215 aggregated \$5,345,060,225 and \$4,929,548,010, respectively, for the year ended December 31, 2017. Realized gains or losses are based on the specific identification method.

NOTE 4 — Federal Income Tax

No provision for federal income tax is required because the Fund has elected to be taxed as a “regulated investment company” under the Internal Revenue Code (the “Code”) and intends to maintain this qualification and to distribute each year to its shareholders, in accordance with the minimum distribution requirements of the Code, its taxable net investment income and taxable net realized gains on investments.

Unrealized appreciation	\$4,225,667,118
Undistributed net realized gains	95,015,493

The tax status of distributions paid during the fiscal years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Dividends from ordinary income	\$160,318,040	\$136,883,079
Distributions from long-term capital gains	483,821,868	665,411,830

The cost of investment securities held at December 31, 2017, was \$11,653,211,973 for federal income tax purposes. Gross unrealized appreciation and depreciation for all investments (excluding short-term investments) at December 31, 2017, for federal income tax purposes was \$4,522,018,708 and \$296,351,590, respectively resulting in net unrealized appreciation of \$4,225,667,118. As of and during the year ended December 31, 2017, the Fund did not have any liability for unrecognized tax benefits. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the year, the Fund did not incur any interest or penalties. The Fund is not subject to examination by U.S. federal tax authorities for years ended on or before December 31, 2014 or by state tax authorities for years ended on or before December 31, 2013.

During the year ended December 31, 2017, the Fund reclassified \$9,785,017 from Undistributed Net Investment Income to Accumulated Net Realized Gain and \$124,954 from Paid in Capital to Accumulated Net Realized Gain to align financial reporting with tax reporting. These permanent differences are primarily due to differing book and tax treatment of foreign currency gains and losses, paydowns from mortgage-backed and other asset backed securities, and dividend redesignations. Net assets were not affected by these reclassifications.

NOTE 5 — Advisory Fees and Other Affiliated Transactions

Pursuant to an Investment Advisory Agreement (the “Agreement”), advisory fees were paid by the Fund to First Pacific Advisors, LLC (the “Adviser”). Under the terms of this Agreement, the Fund pays the Adviser a monthly fee calculated at the annual rate of 1.00% of the Fund’s average daily net assets.

For the year ended December 31, 2017, the Fund paid aggregate fees and expenses of \$480,270 to all Trustees who are not affiliated persons of the Adviser. Certain officers of the Fund are also officers of the Adviser.

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

NOTE 6 — Securities Sold Short

The Fund maintains cash deposits and segregates marketable securities in amounts equal to the current market value of the securities sold short or the market value of the securities at the time they were sold short, whichever is greater. Possible losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested. The dividends on securities sold short are reflected as short sale dividend expense.

NOTE 7 — Redemption Fees

For the year ended December 31, 2017, the Fund collected \$331,976 in redemption fees. The impact of these fees is less than \$0.01 per share.

NOTE 8 — Disclosure of Fair Value Measurements

The Fund uses the following methods and inputs to establish the fair value of its assets and liabilities. Use of particular methods and inputs may vary over time based on availability and relevance as market and economic conditions evolve.

Equity securities are generally valued each day at the official closing price of, or the last reported sale price on, the exchange or market on which such securities principally are traded, as of the close of business on that day. If there have been no sales that day, equity securities are generally valued at the last available bid price. Securities that are unlisted and fixed-income and convertible securities listed on a national securities exchange for which the over-the-counter (“OTC”) market more accurately reflects the securities’ value in the judgment of the Fund’s officers, are valued at the most recent bid price. Events occurring after the close of trading on non-U.S. exchanges may result in adjustments to the valuation of foreign securities to reflect their fair value as of the close of regular trading on the NYSE. The Fund may utilize an independent fair valuation service in adjusting the valuations of foreign securities. However, most fixed income securities are generally valued at prices obtained from pricing vendors and brokers. Vendors value such securities based on one or more of the following inputs: transactions, bids, offers quotations from dealers and trading systems, spreads and other relationships observed in the markets among comparable securities, benchmarks, underlying equity of the issuer, and proprietary pricing models such as cash flows, financial or collateral performance and other reference data (includes prepayments, defaults, collateral, credit enhancements, and interest rate volatility). Currency forwards are valued at the closing currency exchange rate which is not materially different from the forward rate. Short-term corporate notes with maturities of 60 days or less at the time of purchase are valued at amortized cost.

Securities for which representative market quotations are not readily available or are considered unreliable by the Adviser are valued as determined in good faith under procedures adopted by the authority of the Fund’s Board of Trustees. Various inputs may be reviewed in order to make a good faith determination of a security’s value. These inputs include, but are not limited to, the type and cost of the security; contractual or legal restrictions on resale of the security; relevant financial or business developments of the issuer; actively traded similar or related securities; conversion or exchange rights on the security; related corporate actions; significant events occurring after the close of trading in the security; and changes in overall market conditions. Investments in limited partnerships are valued, as a practical expedient, utilizing the net asset valuations provided by the underlying limited partnerships in a manner consistent with U.S. GAAP for investment companies. The Fund applies the practical expedient to its investments in limited partnerships on an investment-by-investment basis, and consistently with the Fund’s entire position in a particular investment, unless it is probable that the Fund will sell a portion of an investment at an amount different from the net asset valuation. Investments in limited partnerships are included in Level 3 of the fair value hierarchy based on the limited rights of withdrawal by the Fund as specified in the respective agreements. Fair valuations and valuations of investments that are not actively

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

trading involve judgment and may differ materially from valuations of investments that would have been used had greater market activity occurred.

The Fund classifies its assets based on three valuation methodologies. Level 1 values are based on quoted market prices in active markets for identical assets. Level 2 values are based on significant observable market inputs, such as quoted prices for similar assets and quoted prices in inactive markets or other market observable inputs as noted above including spreads, cash flows, financial performance, prepayments, defaults, collateral, credit enhancements, and interest rate volatility. Level 3 values are based on significant unobservable inputs that reflect the Fund's determination of assumptions that market participants might reasonably use in valuing the assets. These assumptions consider inputs such as proprietary pricing models, cash flows, prepayments, defaults, and collateral. The valuation levels are not necessarily an indication of the risk associated with investing in those securities. The following table presents the valuation levels of the Fund's investments as of December 31, 2017: (see Portfolio of Investments for industry categories):

Investments	Level 1	Level 2	Level 3	Total
Common Stocks				
Aircraft & Parts	\$1,135,736,698	\$ 253,015,613	—	\$ 1,388,752,311
Infrastructure Software	1,213,860,751	—	—	1,213,860,751
Diversified Banks	926,871,377	—	—	926,871,377
Entertainment Content	—	808,609,320	—	808,609,320
Internet Media	763,429,232	—	—	763,429,232
Investment Companies	408,894,342	307,570,402	—	716,464,744
Consumer Finance	474,787,727	—	—	474,787,727
P&C Insurance	467,147,714	—	—	467,147,714
Insurance Brokers	442,090,120	—	—	442,090,120
Banks	438,795,359	—	—	438,795,359
Electrical Components	424,865,866	—	—	424,865,866
Communications Equipment	424,017,768	—	—	424,017,768
Semiconductor Devices	370,172,553	—	—	370,172,553
Generic Pharma	314,180,944	—	—	314,180,944
Advertising & Marketing	—	270,528,974	—	270,528,974
Internet Based Services	243,720,332	—	—	243,720,332
Institutional Brokerage	219,130,757	—	—	219,130,757
Life Science Equipment	198,027,751	—	—	198,027,751
Containers & Packaging	197,598,993	—	—	197,598,993
Chemicals Distribution	160,994,625	—	\$ 9,936,033	170,930,658
Integrated Oils	—	167,109,430	—	167,109,430
Electrical Power Equipment	133,488,748	—	—	133,488,748
Base Metals	49,281,946	81,691,077	—	130,973,023
Automobiles	—	130,553,454	—	130,553,454
Specialty Chemicals	99,019,335	—	—	99,019,335

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

Investments	Level 1	Level 2	Level 3	Total
Household Products	—	\$ 98,900,024	—	\$ 98,900,024
Food & Drug Stores	\$ 81,826,109	—	\$ 10,758,555	92,584,664
Exploration & Production	45,708,976	—	—	45,708,976
Marine Shipping	—	—	28,084,045	28,084,045
Closed End Fund				
Internet Media	338,581,809	—	—	338,581,809
Limited Partnerships	—	—	57,963,534	57,963,534
Preferred Stock				
Integrated Oils	—	19,188,763	—	19,188,763
Residential Mortgage-Backed Securities				
Non-Agency Collateralized Mortgage Obligation	—	13,762,639	14,112,680	27,875,319
Asset-Backed Securities				
Asset-Backed Securities	—	—	43,195,522	43,195,522
Other	—	—	47,375,590	47,375,590
Corporate Bonds & Notes	—	356,603,162	—	356,603,162
Corporate Bank Debt	—	15,173,404	—	15,173,404
Convertible Bonds	—	63,622,379	—	63,622,379
Municipals	—	146,495,674	—	146,495,674
U.S. Treasuries	—	3,290,948,032	—	3,290,948,032
Short-Term Investments	—	2,407,120,805	—	2,407,120,805
	\$9,572,229,832	\$ 8,430,893,152	\$211,425,959	\$18,214,548,943
Currency Options (currency risk)	—	—	\$ 18,849,423	\$ 18,849,423
Purchased Options (interest rate risk)	—	—	53,684,812	53,684,812
Forward Foreign Currency Contracts				
Payable (currency risk)	—	(1,083,282)	—	(1,083,282)
	—	\$ (1,083,282)	\$ 72,534,235	\$ 71,450,953
Common Stock Sold Short	\$ (428,361,660)	\$ (1,086,044,780)	—	\$ (1,514,406,440)

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

The following table summarizes the Fund's Level 3 investment securities and related transactions during the year ended December 31, 2017:

Investments	Beginning Value at December 31, 2016	Net Realized and Unrealized Gains (Losses)*	Purchases	(Sales)	Gross Transfers In	Gross Transfers Out	Ending Value at December 31, 2017	Net Change in Unrealized Appreciation (Depreciation) related to Investments held at December 31, 2017
Asset-Backed Securities — Asset-Backed Securities	\$ 44,696,707	—	\$25,937,820	\$(27,439,005)	—	—	\$ 43,195,522	—
Purchased Options (interest rate risk)	—	\$ (5,749,330)	59,434,142	—	—	—	53,684,812	\$ (5,749,330)
Common Stocks	102,065,979	(14,718,555)	114,625	(38,683,416)	—	—	48,778,633	(8,634,191)
Limited Partnerships	7,352,285	2,466	—	(400,246)	\$51,009,029	—	57,963,534	(2,457,058)
Asset-Backed Securities — Other	65,298,046	—	492,700	(18,415,156)	—	—	47,375,590	—
Currency Options (currency risk)	24,962,703	(6,113,280)	—	—	—	—	18,849,423	(6,113,279)
Residential Mortgage- Backed Securities Non-Agency Collateralized Mortgage Obligation	22,175,492	773,794	—	(8,836,606)	—	—	14,112,680	(129,968)
	<u>\$266,551,212</u>	<u>\$(25,804,905)</u>	<u>\$85,979,287</u>	<u>\$(93,774,429)</u>	<u>\$51,009,029</u>	<u>—</u>	<u>\$283,960,194</u>	<u>\$(23,083,826)</u>

* Net realized and unrealized gains (losses) are included in the related amounts in the statement of operations.

Level 3 Valuation Process: Investments classified within Level 3 of the fair value hierarchy are valued by the Adviser in good faith under procedures adopted by authority of the Fund's Board of Trustees. The Adviser employs various methods to determine fair valuations including regular review of key inputs and assumptions, and review of related market activity, if any. However, there are generally no observable trade activities in these securities. The Adviser reports to the Board of Trustees at their regularly scheduled quarterly meetings, or more often if warranted. The report includes a summary of the results of the process, the key inputs and assumptions noted, and any changes to the inputs and assumptions used. When appropriate, the Adviser will recommend changes to the procedures and process employed. The value determined for an investment using the fair value procedures may differ significantly from the value realized upon the sale of such investment. Transfers of

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

investments between different levels of the fair value hierarchy are recorded at market value as of the end of the reporting period. There were transfers of \$1,035,498,192 from Level 1 to Level 2 during the year ended December 31, 2017. The transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2017, were due to changes in valuation of international equity securities from the exchange closing price to the fair value price. There were also transfers of \$51,009,029 into Level 3 during the year ended December 31, 2017, which were due to applying a discount to NAV as practical expedient. The following table summarizes the quantitative inputs and assumptions used for items categorized as items categorized as Level 3 of the fair value hierarchy as of December 31, 2017:

Financial Assets	Fair Value at December 31, 2017	Valuation Technique(s)	Unobservable Inputs	Price/Range
Asset-Backed Securities —				
Asset Backed Securities	\$43,195,522	Most Recent Capitlization (Funding) (d)	Private Financing	\$100.00
Purchased Options (interest rate risk)	\$53,684,812	Third-Party Broker Quote (e)	Quotes/Prices	\$0.19-\$0.20
Common Stocks- Long	\$ 9,936,033	Restricted Assets (a)	Discount	44.90%
	\$10,758,555	Restricted Assets (a)	Quotes/Prices	\$5.82
	\$28,084,045	NAV adjusted to Fair Value (b)	N/A	\$24.50
Limited Partnerships	\$ 6,954,505	Restricted Assets (a)	N/A	\$7,185.08
	\$51,009,029	Discounted NAV (f)	Discount	4.19%
Asset-Backed Securities — Other	\$47,375,590	Most Recent Capitlization (Funding) (d)	Private Financing	\$100.00
Currency Options (currency risk)	\$18,849,423	Third-Party Broker Quote (e)	Quotes/Prices	\$0.10
Residential Mortgage-Backed — Non-Agency CMO	\$14,112,680	Methods of Comparables/Consensus Pricing (c)	Quotes/Prices Discount	\$40.11-\$59.79 (\$49.91) 0.0%-12.64% (4.26%)

- (a) The fair value of the investment is measured on the basis of the quoted price for an otherwise identical unrestricted instrument that trades in a public market, adjusted to reflect the effect of the restriction.
- (b) The NAV provided by the administrator of the LLC is reported at depreciated cost. To adjust to fair value, the Fund obtains independent appraisals of the underlying fixed assets and adjusts the NAV based on the difference between the two values.
- (c) The Pricing Model technique for Level 3 securities involves preparing a proprietary broker price opinion (BPO) model using valuation information provided by the loan servicer based on local market resources and sales trends published by the National Association of Realtors, and a broker, and then applying an appropriate discount to that valuation. The discount reflects market conditions such as lack of liquidity of the investment, the costs associated with foreclosure and liquidation, the historical performance of the loan pool and the characteristics of the remaining loans including whether or not the loans are performing.
- (d) The significant unobservable inputs used in the fair value measurement of the Fund's Private Investment shares are based on its most recent funding. If the financial condition of the underlying assets were to deteriorate, or if the market comparables were to fall, the value of this investment would be lower.
- (e) The Third Party Broker Quote technique involves obtaining an independent third-party broker quote for the security
- (f) The NAV provided by the general partner have been discounted for the possible impact from various long-term exit strategies under consideration by the general partner.

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

Options Contracts: An option contract is a commitment that gives the purchaser of the contract the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a specified future date. On the other hand, the writer of an option contract is obligated, upon the exercise of the option, to buy or sell an underlying asset at a specific price on or before a specified future date. A swaption is an option contract granting the owner the right to enter into an underlying swap. Inflation-capped options are options on U.S. inflation rates at a stated strike price. The seller of an inflation-capped option receives an upfront premium and in return the buyer receives the right to receive a payment at the expiration of the option if the cumulative annualized inflation rate over the life of the option is above (for caps) or below (for floors) the stated strike price. The purpose of inflation-capped options is to protect the buyer from inflation erosion above a certain rate on a given notional exposure. A floor can be used to give downside protection to investments in inflation-linked products below a certain rate on a given notional exposure. Writing put options or purchasing call options tends to increase a Fund's exposure to the underlying instrument. Writing call options or purchasing put options tends to decrease a Fund's exposure to the underlying instrument. When a Fund writes or purchases a call, put, or inflation-capped option, an amount equal to the premium received or paid by the Fund is recorded as a liability or an investment, respectively, and subsequently adjusted to the current market value, based on the quoted daily settlement price of the option written or purchased. Certain options may be written or purchased with premiums to be determined on a future date. The premiums for these options are based upon implied volatility parameters at specified terms. Premiums received or paid from writing or purchasing options, which expire unexercised, are treated by a Fund on the expiration date as realized gains or losses. The difference between the premium and the amount paid or received on a closing purchase or sale transaction, including brokerage commissions, is also treated as a realized gain or loss. If an option is exercised, the premium paid or realized is added to the cost of the purchase or proceeds from the sale in determining whether the Fund has realized a gain or loss on investment transactions. A Fund, as a writer of an option, may have no control over whether the underlying instrument may be sold (call) or purchased (put) and as a result bears the market risk of an unfavorable change in the price of the underlying written option. In addition, an illiquid market may make it difficult for a Fund to close out an option contract. The maximum risk of loss associated with writing put options is limited to the exercised fair value of the option contract. The maximum risk of loss associated with writing call options is potentially unlimited. Listed option contracts present minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange-traded options, guarantees the options against default. A Fund's maximum risk of loss from counterparty credit risk related to OTC option contracts is limited to the premium paid.

Forward foreign currency contracts: Forward foreign currency contracts are agreements to exchange one currency for another at a future date and at a specified price. The Funds' transactions in forward foreign currency contracts are limited to transaction and portfolio hedging. The contractual amounts of forward foreign currency contracts do not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered and could exceed the net unrealized value. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency values. Forward foreign currency contracts are valued daily at the foreign exchange rates as of the close of the New York Stock Exchange. Unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the foreign exchange rates at the end of the period is included in the Statement of Assets and Liabilities under the caption "Forward Foreign Currency Contracts." Realized gains and losses and the net change in unrealized appreciation (depreciation) on forward foreign currency contracts for the year are included in the Statement of Operations under the caption "Forward Foreign Currency Contracts." During the year ended

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

December 31, 2017, the fund had average volume of forward foreign currency contracts (based on the open positions at each month end) for purchases and sales of \$129,865,759 and \$116,025,000, respectively.

NOTE 9 — Collateral Requirements

For derivatives traded under an ISDA Master Agreement, the collateral requirements are typically calculated by netting the mark to market amount for each transaction under such agreement and comparing that amount to the value of any collateral currently pledged by a Fund and the counterparty. Cash collateral that has been pledged to cover obligations of a Fund and cash collateral received from the counterparty, if any, is reported separately on the Statement of Assets and Liabilities as cash pledged as collateral and cash received as collateral, respectively. Non-cash collateral pledged by a Fund, if any, is noted in the Portfolio of Investments. Generally, the amount of collateral due from or to a party is delivered to/pledged by the Fund on the next business day. Typically, the Fund and counterparties are not permitted to sell, repledge or use the collateral they receive. To the extent amounts due to the Fund from its counterparties are not fully collateralized, contractually or otherwise, the Fund bears the risk of loss from counterparty non-performance. The Fund attempts to mitigate counterparty risk by entering into agreements only with counterparties that it believes have the financial resources to honor their obligations and by monitoring the financial stability of those counterparties.

For financial reporting purposes, the Fund does not offset derivative assets and derivative liabilities that are subject to netting arrangements in the Statement of Assets and Liabilities.

FASB Accounting Standards Update No. 2011-11, Disclosures about Offsetting Assets and Liabilities, requires disclosures to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards. Under this guidance the Fund discloses both gross and net information about instruments and transactions eligible for offset such as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the Fund discloses collateral received and posted in connection with master netting agreements or similar arrangements. The following table presents the Fund's OTC derivative assets and master repurchase agreements by counterparty net of amounts available for offset under an ISDA Master agreement or similar agreements and net of the related collateral received or pledged by the Fund as of December 31, 2017:

<u>Counterparty</u>	<u>Gross Assets (Liabilities) in the Statement of Assets and Liabilities</u>	<u>Collateral Received (Pledged)</u>	<u>Assets (Liabilities) Available for Offset</u>	<u>Net Amount of Assets (Liabilities)*</u>
State Street Bank and Trust Company:				
Repurchase Agreement	\$69,521,000	\$69,521,000**	—	—
Barclays Capital:				
Forward foreign currency contracts Payable	\$(1,083,282)	—	—	\$(1,083,282)
Call Options Purchased	\$35,882,357	—	—	\$35,882,357
Put Options Purchased	\$18,849,423	—	—	\$18,849,423
Morgan Stanley:				
Call Options Purchased	\$17,802,455	—	—	\$17,802,455

* Represents the net amount receivable (payable) from the counterparty in the event of default.

** Collateral with a value of \$70,913,045 has been received in connection with a master repurchase agreement. Excess of collateral received from the individual master repurchase agreement is not shown for financial reporting purposes.

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

NOTE 10 — Commitments

At December 31, 2017, the Fund was liable for the following unfunded commitments:

Security	Unfunded Commitment
GACP II, L.P.	\$70,000,000

NOTE 11 — Affiliated Investments

A company is considered an affiliate of a fund under the Investment Company Act of 1940 if the Fund's holdings in that company represent 5% or more of the outstanding voting shares of that company. Further details on such holdings and related transactions during the year ended December 31, 2017, appear below:

Investments	Shares Held at 12/31/2016	Beginning Value as of December 31, 2016	Purchases at Cost	Proceeds from Sales	Net Realized Gain/(Loss) on sales of Affiliated Investments	Change in Unrealized Appreciation/ Depreciation	Ending Value as of December 31, 2017	Shares as of December 31, 2017	Dividend Income from Affiliated Investments
Common Stocks — 7.35%									
Aircraft & Parts — 2.57%									
Esterline Technologies Corporation ^(a)									
	2,863,871	\$ 255,457,293	\$ 0	\$ (22,193,684)	\$ 517,999	\$(37,253,303)	\$ 196,528,305	2,630,901	\$ —
Meggitt plc	41,729,847	235,848,142	10,626,588	(25,679,695)	(11,457,376)	43,677,954	253,015,613	38,965,308	7,356,623
		<u>491,305,435</u>	<u>10,626,588</u>	<u>(47,873,379)</u>	<u>(10,939,377)</u>	<u>6,424,651</u>	<u>449,543,918</u>		<u>7,356,623</u>
Banks — 2.51%									
CIT Group, Inc.									
	11,225,440	479,101,779	—	(110,495,293)	12,500,320	57,688,553	438,795,359	8,913,170	6,100,376
Containers & Packaging — 1.13%									
Owens-Illinois, Inc. ^(a)									
	8,912,900	155,173,589	—	—	—	42,425,404	197,598,993	8,912,900	—
Chemicals Distribution ^(a) — 0.98%									
Nexeo Solutions, Inc. ^{(a)(b)}									
	17,691,717	164,709,885	—	—	—	(3,715,260)	160,994,625	17,691,717	—
Nexeo Solutions Inc. (Founders Shares) ^{(a)(b)(c)(d)}									
	2,431,709	10,639,909	—	—	—	(703,876)	9,936,033	2,431,709	—
		<u>175,349,794</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,419,136)</u>	<u>170,930,658</u>		<u>—</u>
Marine Shipping — 0.16%									
Sound Holding FP ^{(a)(b)(c)(d)}									
	1,146,250	24,564,336	114,625	—	—	3,405,084	28,084,045	1,146,250	—
Limited Partnerships — 0.04%									
WLRs Fund I LLC ^{(a)(b)(c)(d)}									
	968	7,352,285	—	—	—	-397,780	6,954,505	968	—
Total Affiliated Investments — 7.39%		<u>\$1,332,847,218</u>	<u>\$10,741,213</u>	<u>\$(158,368,672)</u>	<u>\$ 1,560,943</u>	<u>\$105,126,776</u>	<u>\$1,291,907,478</u>		<u>\$13,456,999</u>

FPA CRESCENT FUND

NOTES TO FINANCIAL STATEMENTS

Continued

- ^(a) Non-income producing security.
- ^(b) Restricted securities. These securities are considered to be liquid by the Adviser. These securities are not registered and may not be sold to the public. There are legal and/or contractual restrictions on resale. The Fund does not have the right to demand that such securities be registered. The values of these securities are determined by valuations provided by pricing services, brokers, dealers, market makers, or in good faith under policies adopted by authority of the Board of Trustees.
- ^(c) These securities have been valued in good faith under policies adopted by authority of the Board of Trustee in accordance with the Fund's fair value procedures.
- ^(d) Investments categorized as significant unobservable input (Level 3) (See Note 8 of the Notes to Financial Statements).

FPA CRESCENT FUND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS OF FPA CRESCENT FUND AND THE BOARD OF TRUSTEES OF FPA FUNDS TRUST

Opinion on the Financial Statements and Financial Highlights

We have audited the accompanying statement of assets and liabilities of FPA Crescent Fund, a series of FPA Funds Trust, (the “Fund”), including the portfolio of investments, as of December 31, 2017, the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the five years in the period then ended, and the related notes. In our opinion, the financial statements and financial highlights present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, and the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements and financial highlights are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the Fund’s financial statements and financial highlights based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included confirmation of securities owned as of December 31, 2017, by correspondence with the custodian and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

Deloitte & Touche LLP

Los Angeles, California
February 20, 2018

We have served as the auditor of one or more of the investment companies managed by First Pacific Advisors, LLC since 2002.

FPA CRESCENT FUND

APPROVAL OF INVESTMENT ADVISORY AGREEMENT

(Unaudited)

Approval of the Advisory Agreement. At a meeting of the Board of Trustees held on August 14, 2017, the Trustees approved the continuation of the advisory agreement between the Fund and the Adviser for an additional one-year period through September 30, 2018, on the recommendation of the Independent Trustees, who met in executive session on August 14, 2017 prior to the Board meeting to review and discuss the proposed continuation of the advisory agreement. The following paragraphs summarize the material information and factors considered by the Board and the Independent Trustees, as well as the Trustees' conclusions relative to such factors.

Nature, Extent and Quality of Services. The Board and the Independent Trustees considered information provided by the Adviser in response to their requests, as well as information provided throughout the year regarding the Adviser and its staffing in connection with the Fund, including the Fund's portfolio managers, the number and quality of analysts the Adviser has hired who are under the direct supervision of the Fund's portfolio managers, the scope of services supervised and provided by the Adviser, and the absence of any significant service problems reported to the Board. The Independent Trustees especially noted the experience, length of service and the outstanding reputation of the Fund's portfolio managers: Steven Romick, who has managed the Fund since its inception in 1993, Mark Landecker, who joined the Adviser in 2009 and has served as portfolio manager since 2013 and Brian A. Selmo, who joined the Adviser in 2008 and has served as portfolio manager since 2013. The Board and the Independent Trustees concluded that the nature, extent and quality of services provided by the Adviser have benefitted and should continue to benefit the Fund and its shareholders.

Investment Performance. The Board and the Independent Trustees reviewed the overall investment performance of the Fund. They also received information from an independent consultant, Morningstar, regarding the Fund's performance relative to a peer group of flexible (domestic and international) funds selected by Morningstar (the "Peer Group"). The Board and the Independent Trustees considered the Adviser's representation that the Fund's investment strategy is significantly different from other funds in the Peer Group in that the Fund has a much broader universe of investment possibilities, which requires a greater degree of portfolio management effort on the part of the Adviser. The Board and the Independent Trustees also considered the Adviser's representation that no other Morningstar category or peer grouping adequately represents the breadth and style of investing performed by the Fund's portfolio managers on behalf of the Fund (as a report previously prepared for the Board by an independent consultant had concluded). The Board and the Independent Trustees considered FPA's representation that the Fund's size did not impede its ability to manage the Fund. The Board and the Independent Trustees noted the Fund's strong long-term investment performance and low volatility of returns when compared to the Peer Group and concluded that the Fund's investment performance has been strong. The Board and the Independent Trustees noted the Fund outperformed its Peer Group median for the one-, three-, five- and 10-year period ending March 31, 2017 and underperformed the Fund's benchmark, S&P 500 Index, for the same time periods. They also noted that Morningstar has continued to give the Fund a "Gold" Analyst Rating. In addition, they considered a comparison of the Fund's performance to that of hedge funds managed by the Adviser in a similar style. The Board and the Independent Trustees concluded that the Adviser's continued management of the Fund's investments should benefit the Fund and its shareholders.

Advisory Fees and Fund Expenses; Comparison with Peer Group and Institutional Fees. The Board and the Independent Trustees considered information provided by the Adviser regarding the Fund's advisory fees and total expense levels. The Board and the Independent Trustees reviewed comparative information regarding fees and expenses for the mutual fund industry generally and for the Peer Group. The Board and the Independent Trustees noted that the Fund's current management fee rate and total expense ratio each ranked towards the higher end of those of the Peer Group. They considered the Adviser's representation that the Fund's broader

FPA CRESCENT FUND

APPROVAL OF INVESTMENT ADVISORY AGREEMENT

(Unaudited) Continued

investment strategy makes comparisons to the advisory fees of the funds in the Peer Group less relevant, noting the Adviser's representation that most of the funds in the Peer Group are traditional balanced funds with different investment objectives and strategies, generally encompassing bond components that traditionally have lower advisory fees. The Board and the Independent Trustees considered the fees charged by the Adviser for advising institutional accounts and hedge funds and for sub-advising other mutual funds and the Adviser's discussion of the differences between the services provided by the Adviser to the Fund and those provided by the Adviser to the sub-advised funds, institutional accounts, and hedge funds. The Board and the Independent Trustees concluded that the continued payment of advisory fees and expenses by the Fund to the Adviser was fair and reasonable and should continue to benefit the Fund and its shareholders.

Adviser Profitability and Costs. The Board and the Independent Trustees considered information provided by the Adviser regarding the Adviser's costs in providing services to the Fund, the profitability of the Adviser and the benefits to the Adviser from its relationship to the Fund. They reviewed and considered the Adviser's representations regarding its assumptions and methods of allocating certain costs, such as personnel costs, which constitute the Adviser's largest operating cost, overhead and trading costs with respect to the provision of investment advisory services. The Independent Trustees discussed with the Adviser the general process through which individuals' compensation is determined and then reviewed by the management committee of the Adviser, as well as the Adviser's methods for determining that the compensation levels are at appropriate levels to attract and retain the personnel necessary to provide high quality professional investment advice. In evaluating the Adviser's profitability, they excluded certain distribution and marketing-related expenses. The Board and the Independent Trustees recognized that the Adviser is entitled under the law to earn a reasonable level of profits for the services that it provides to the Fund. The Board and the Independent Trustees concluded that the Adviser's level of profitability from its relationship with the Fund did not indicate that the Adviser's compensation was unreasonable or excessive.

Economies of Scale and Sharing of Economies of Scale. The Board and the Independent Trustees considered, and discussed at length with the Adviser, whether there have been economies of scale with respect to the management of the Fund, whether the Fund has appropriately benefited from any economies of scale, and whether the fee rate is reasonable in relation to the Fund's asset levels and any economies of scale that may exist. While the Independent Trustees noted that the Fund experienced significant increases in its net assets several years ago, in recent years asset levels have modestly declined. They also considered the Adviser's representation that its internal costs of providing investment management services to the Fund have also significantly increased in recent years as a result of a number of factors, including the ongoing and growing complexity of the Fund's investments, as well as the Adviser's substantial investment in additional professional resources and staffing. The Board and the Independent Trustees considered quantitative and qualitative information regarding the Adviser's representation that it has also made significant investments in: (1) maintaining a portfolio management team of three and a team of analysts, traders and other investment personnel who assist with the management of the Fund; (2) new compliance, operations, and administrative personnel; (3) information technology, portfolio accounting and trading systems; and (4) office space, each of which enhances the quality of services provided to the Fund. The Board and Independent Trustees also considered the Adviser's representation that it would continue making such investments to maintain and increase the level and quality of services that it provides to the Fund. The Board and the Independent Trustees also considered that the Adviser had foregone the reimbursement for providing certain financial services that it had previously received from the Fund. The Board and the Independent Trustees also considered the Adviser's willingness to close funds to new investors when it believed that the Fund

FPA CRESCENT FUND

APPROVAL OF INVESTMENT ADVISORY AGREEMENT

(Unaudited) Continued

had limited capacity to grow or that it otherwise would benefit fund shareholders, as well as steps that the Adviser had taken to slow the asset growth of the Fund.

The Board and the Independent Trustees recognized that the advisory fee schedule for the Fund does not have breakpoints. They considered that many mutual funds have breakpoints in the advisory fee structure as a means by which to share in the benefits of potential economies of scale as a fund's assets grow. They also considered that not all funds have breakpoints in their fee structures and that breakpoints are not the exclusive means of sharing potential economies of scale. The Board and the Independent Trustees considered the Adviser's statement that it believes that breakpoints currently remain inappropriate for the Fund given the ongoing additional investments the Adviser is making in its business for the benefit of the Fund, uncertainties regarding the direction of the economy, and uncertainties regarding future growth or contraction in the Fund's assets, all of which could negatively impact the profitability of the Adviser. The Board and the Independent Trustees concluded that the Fund is benefitting from the ongoing investments made by the Adviser in its team of personnel serving the Fund and in the Adviser's service infrastructure, and that in light of these investments, the addition of breakpoints to the Fund's advisory fee structure was not warranted at current asset levels.

Ancillary Benefits. The Board and the Independent Trustees considered other actual and potential benefits to the Adviser from managing the Fund, including the acquisition and use of research services with commissions generated by the Fund, in concluding that the contractual advisory and other fees are fair and reasonable for the Funds. They noted that the Adviser does not have any affiliates that benefit from the Adviser's relationship to the Fund.

Conclusions. The Board and the Independent Trustees determined that the Fund continues to benefit from the services of the Adviser's highly experienced portfolio managers and portfolio management team, which has produced outstanding long-term returns with low relative volatility. In addition, the Board and the Independent Trustees agreed that the Fund continues to receive high quality services from the Adviser. The Board and the Independent Trustees concluded that the current advisory fee rate is reasonable and fair to the Fund and its shareholders in light of the nature and quality of the services provided by the Adviser and the Adviser's profitability and costs. In reaching their conclusions, the Independent Trustees also noted their intention to continue monitoring the factors relevant to the Adviser's compensation, such as changes in the Fund's asset levels, changes in portfolio management personnel and the cost and quality of the services provided by the Adviser to the Fund. On the basis of the foregoing, and without assigning particular weight to any single factor, none of which was dispositive, the Board and the Independent Trustees concluded that it would be in the best interests of the Fund to continue to be advised and managed by the Adviser and determined to approve the continuation of the current Advisory Agreement for another one-year period through September 30, 2018.

FPA CRESCENT FUND

SHAREHOLDER EXPENSE EXAMPLE

December 31, 2017 (Unaudited)

Fund Expenses

Mutual fund shareholders generally incur two types of costs: (1) transaction costs, and (2) ongoing costs, including advisory and administrative fees; shareholder service fees; and other Fund expenses. The Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The Example is based on an investment of \$1,000 invested at the beginning of the year and held for the entire year.

Actual Expenses

The information in the table under the heading “Actual Performance” provides information about actual account values and actual expenses. You may use the information in this column, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first column in the row entitled “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The information in the table under the heading “Hypothetical Performance (5% return before expenses)” provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund

and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs. Therefore, the information under the heading “Hypothetical Performance (5% return before expenses)” is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher. Even though the Fund does not charge transaction fees, if you purchase shares through a broker, the broker may charge you a fee. You should evaluate other mutual funds’ transaction fees and any applicable broker fees to assess the total cost of ownership for comparison purposes.

	Actual Performance	Hypothetical Performance (5% return before expenses)
Beginning Account Value June 30, 2017	\$1,000.00	\$1,000.00
Ending Account Value December 31, 2017	\$1,048.60	\$1,019.70
Expenses Paid During Period*	\$ 5.64	\$ 5.56

* Expenses are equal to the Fund’s annualized expense ratio of 1.09%, multiplied by the average account value over the period and prorated for the six-months ended December 31, 2017 (184/365 days).

FPA CRESCENT FUND

PRIVACY POLICY

The Fund considers customer privacy to be an essential part of its investor relationships and is committed to maintaining the confidentiality, integrity and security of its current, prospective and former investors' non-public personal information. The Fund has developed policies that are designed to protect this confidentiality, while permitting investor needs to be served.

Obtaining Personal Information

While providing investors with products and services, the Fund and certain service providers, such as the Fund's Transfer Agent and/or Administrator, may obtain non-public personal information about investors, which may come from sources such as (i) account applications, subscription agreements and other forms, (ii) written, electronic or verbal correspondence, (iii) investor transactions, (iv) an investor's brokerage or financial advisory firm, financial advisor or consultant, and/or (v) from information captured on applicable websites. The non-public personal information that may be collected from investors may include the investor's name, address, tax identification number, birth date, investment selection, beneficiary information, and possibly the investor's personal bank account information and/or email address if the investor has provided that information, as well as the investor's transaction and account history with the Fund or other investment companies advised by First Pacific Advisors, LLC.

Respecting Your Privacy

The Fund does not disclose any non-public personal information provided by investors or gathered by the Fund to third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the Fund. Non-affiliated companies may from time to time be used to provide certain services, such as maintaining investor accounts, preparing and mailing prospectuses, reports, account statements and other information, and gathering shareholder proxies. In many instances, the investors will be clients of a third party, but the Fund may also provide an investor's personal and account information to the investor's respective brokerage or financial advisory firm and/or financial advisor or consultant.

Sharing Information with Third Parties

The Fund reserves the right to report or disclose personal or account information to third parties in circumstances where the Fund believes in good faith that disclosure is required or permitted under law, to cooperate with regulators or law enforcement authorities, to protect its rights or property, or upon reasonable request by the Fund in which an investor has invested. In addition, the Fund may disclose information about an investor or an investor's accounts to a third party at the investor's request or with the consent of the investor.

Procedures to Safeguard Private Information

The Fund is committed to its obligation to safeguard investor non-public personal information. In addition to this policy, the Fund has implemented procedures that are designed to limit access to an investor's non-public personal information to internal personnel who require the information to complete tasks, such as processing transactions, maintaining client accounts or otherwise providing services the investor requested. Physical, electronic and procedural safeguards are in place to guard an investor's non-public personal information.

Information Collected from Websites

Websites maintained by the Fund or its service providers may use a variety of technologies to collect information that helps the Fund and its service providers understand how the website is used. Information collected from your web browser (including small files stored on your device that are commonly referred to as "cookies") allow the websites to recognize your web browser and help to personalize and improve your user experience and enhance navigation of the website. If you are a registered user of the Fund's and/or its service providers' website,

FPA CRESCENT FUND PRIVACY POLICY

Continued

the Fund, its service providers or third party firms engaged by the Fund or its service providers, may collect or share information submitted by you, which may include personally identifiable information. You can change your cookie preferences by changing the setting on your web browser to delete or reject cookies. If you delete or reject cookies, some website pages may not function properly. The Fund does not look for web browser “do not track” requests.

Changes to the Privacy Policy

From time to time, the Fund may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.

Revised: February, 2018

FPA CRESCENT FUND

TRUSTEE AND OFFICER INFORMATION

(Unaudited)

<u>Name, Address⁽¹⁾ and Year of Birth</u>	<u>Position(s) With Fund Years Served</u>	<u>Principal Occupation(s) During the Past 5 Years</u>	<u>Portfolios in Fund Complex Overseen</u>	<u>Other Directorships</u>
Independent Trustees				
Allan M. Rudnick – 1940†	Trustee and Chairman* Years Served: 6	Private Investor. Formerly Co-Founder, Chief Executive Officer, Chairman and Chief Investment Officer of Kayne Anderson Rudnick Investment Management from 1989 to 2007.	7	
Sandra Brown – 1955†	Trustee* Years Served: 1	Consultant. Formerly CEO and President of Transamerica Financial Advisers, Inc., 1999 to 2009; President, Transamerica Securities Sales Corp. 1998 to 2009; VP, Bank of America Mutual Fund Administration 1990 to 1998.	7	
Mark L. Lipson – 1949†	Trustee* Years Served: 2	Consultant. ML2Advisors, LLC. Formerly Managing Director, Bessemer Trust (2007- 2014) and US Trust (2003-2006); Founder, Chairman and CEO of the Northstar Mutual Funds (1993-2001).	7	
Alfred E. Osborne, Jr. – 1944†	Trustee* Years Served: 14	Senior Associate Dean of the John E. Anderson School of Management at UCLA.	7	Wedbush, Inc., Nuverra Environmental Solutions, Inc., and Kaiser Aluminum, Inc.
A. Robert Pisano – 1943†	Trustee* Years Served: 4	Consultant. Formerly President and Chief Operating Officer of the Motion Picture Association of America, Inc. from 2005 to 2011.	7	Entertainment Partners, and Resources Global Professionals
Patrick B. Purcell – 1943†	Trustee* Years Served: 10	Retired. Formerly Executive Vice President, Chief Financial and Administrative Officer of Paramount Pictures from 1983 to 1998.	7	
Interested Trustees⁽²⁾				
J. Richard Atwood – 1960	Trustee* and President Years Served: 14	Managing Partner of the Adviser.	7	
Steven Romick – 1963	Trustee,* Vice President & Portfolio Manager Years Served: 23	Managing Partner of the Adviser.	2	

FPA CRESCENT FUND

TRUSTEE AND OFFICER INFORMATION

(Unaudited) Continued

<u>Name, Address⁽¹⁾ and Year of Birth</u>	<u>Position(s) With Fund Years Served</u>	<u>Principal Occupation(s) During the Past 5 Years</u>	<u>Portfolios in Fund Complex Overseen</u>	<u>Other Directorships</u>
Officers				
Mark Landecker – 1975	Vice President & Portfolio Manager Years Served: 4	Partner of the Adviser (since 2013). Formerly Managing Director (2013) and Senior Vice President (2009 to 2012) of the Adviser.		
Brian Selmo – 1977	Vice President & Portfolio Manager Years Served: 4	Partner of the Adviser (since 2013). Formerly Managing Director (2013) and Vice President (2008 to 2012) of the Adviser.		
David C. Lebisky – 1972	Chief Compliance Officer Years Served: <1	President of Lebisky Compliance Consulting LLC (since October 2015). Consultant, Duff & Phelps Compliance Consulting (since 2016). Senior Consultant, Freeh Group International Solutions, LLC (a global risk management firm) (since 2015). Formerly, Director of Regulatory Administration, Scotia Institutional Investments US, LP (2010 to 2014).		
E. Lake Setzler – 1967	Treasurer Years Served: 10	Senior Vice President and Controller of the Adviser.		
Francine S. Hayes – 1967	Secretary Years Served: 2	Vice President and Senior Counsel of State Street Bank and Trust Company		

⁽¹⁾ The address for each Trustee and each Officer (except Ms. Hayes) is 11601 Wilshire Boulevard, Suite 1200, Los Angeles, California 90025. Ms. Hayes' address is State Street Bank and Trust Company, One Lincoln Street, Boston, Massachusetts 02111.

⁽²⁾ "Interested person" within the meaning of the 1940 Act by virtue of his affiliation with the Fund's Adviser.

* Trustees serve until their resignation, removal or retirement.

† Audit Committee member

The Statement of Additional Information includes additional information about the Trustees and is available, without charge, upon request by calling (800) 982-4372.

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FPA CRESCENT FUND

(Unaudited)

INVESTMENT ADVISER

First Pacific Advisors, LLC
11601 Wilshire Boulevard, Suite 1200
Los Angeles, CA 90025

DISTRIBUTOR

UMB Distribution Services, LLC
235 West Galena Street
Milwaukee, Wisconsin 53212-3948

TRANSFER & SHAREHOLDER SERVICE AGENT

UMB Fund Services, Inc.
P.O. Box 2175
Milwaukee, WI 53201-2175
or
235 West Galena Street
Milwaukee, WI 53212-3948

(800) 638-3060

LEGAL COUNSEL

Dechert LLP
San Francisco, California

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Los Angeles, California

CUSTODIAN AND ADMINISTRATOR

State Street Bank and Trust Company
Boston, Massachusetts

TICKER SYMBOL: FPACX
CUSIP: 30254T759

This report has been prepared for the information of shareholders of FPA CRESCENT FUND, and is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus. The financial information included in this report has been taken from the records of the Fund without examination by independent auditors.

The Fund's complete proxy voting record for the 12 months ended June 30, 2017 is available without charge, upon request by calling (800) 982-4372 and on the SEC's website at www.sec.gov.

The Fund's schedule of portfolio holdings, filed the first and third quarter of the Fund's fiscal year on Form N-Q with the SEC, is available on the SEC's website at www.sec.gov. Form N-Q is available at the SEC's Public Reference Room in Washington, D.C., and information on the operations of the Public Reference Room may be obtained by calling (202) 551-8090. To obtain Form N-Q from the Fund, shareholders can call (800) 982-4372.

Additional information about the Fund is available online at www.fpafunds.com. This information includes, among other things, holdings, top sectors, and performance, and is updated on or about the 15th business day after the end of each quarter.