FPA Crescent Fund
Fourth Quarter 2015 Commentary

Dear Shareholders:

The FPA Crescent Fund increased 2.80% in the fourth quarter but declined 2.06% in 2015, only the third year out of the last 22 in which the Fund has lost money. Global markets were down for the year. The S&P 500 was up 7.04% and 1.38% in the fourth quarter and year, respectively. However, the MSCI All Country World Index (ACWI)[1] was up 5.03% in the quarter but fell 2.36% for the year.

If you look under the covers, S&P 500 performance was extremely narrow and markedly influenced by just five stocks or 1% of the companies in the S&P 500 – Amazon, Facebook, General Electric, Alphabet (Google) and Microsoft – which as a group added approximately 2.9% to the S&P's return. Excluding these names, the S&P would have declined 1.5%. Needless to say, the Fund benefited from its ownership of three of the five.

Top five contributors to 2015 S&P 500 performance

Company	2015 Total Return	S&P 500 Return Contribution	Trailing P/E
Alphabet	46.6%	0.86%	36.4
Amazon	117.8%	0.87%	979.6
Facebook	34.2%	0.38%	105.7
General Electric	27.5%	0.36%	22.7
Microsoft	22.7%	0.45%	22.1
Average	**49.8%**		**233.3**
Total		**2.93%**	

Growth companies fared better than value. Although the Russell 3000 Index returned 0.48% in 2015, the Russell 3000 Growth Index increased 5.09%, while the Russell 3000 Value Index declined 4.13%. And, all else being equal, the bigger the company, the better its performance. S&P 500 companies with market caps above $100 billion returned 4.4% last year but those below $5 billion declined 19.6%.[2]

2015 S&P 500 return by market capitalization

Market Cap	2015 Average Total Return
>$100B	4.39%
$50-100B	2.38%
$10-50B	-3.22%
$5-10B	-0.72%
<$5B	-19.60%

[1] The MSCI ACWI captures large and mid-cap representation across 23 Developed Markets and 23 Emerging Markets countries. With 2,491 constituents, the index covers approximately 85% of the global investable opportunity set.
[2] Returns predicated on where market capitalizations were at the beginning of 2015, therefore using pricing and S&P 500 constituents as of December 31, 2014.

In addition, global stocks underperformed domestic ones, cash underperformed bonds and high yield declined in general.

Performance in 2015 was as much a function of investments that haven't worked out (yet, we hope) as much as it was the result of a conscious choice to reduce or eliminate our stakes in companies that we viewed as expensive. As it happens, the companies we sold outperformed, on average, the investments we purchased. This is far from unusual in value investing. Buying and selling early has always been the bane of the value investor, who must have the fortitude to live through periods of being out of favor. What was a good value at one price is presumably a better value when it has declined 20%, assuming one's analysis was correct at the outset. We believe that's the case with the majority of the companies in our portfolio; cheaper on average than they were a few months ago but not yet at prices we'd call "no-brainers."

Crescent naturally moves up and down with the stock market but generally has less of a move in either direction. Traditionally, we lag on the upside but outperform on the downside. At first glance, it appears that we've declined as much as the market – down 11.71% since May 2015's market peak against the S&P 500's 11.30% decline – but that's looking at the market only through the lens of the S&P 500.[3] However, roughly half of our equity holdings (totaling almost a third of the Fund's equity exposure) are not included in the S&P 500 index. Our quest for value has increasingly taken us overseas and our portfolio is more global than it has been in the past. We therefore consider the MSCI ACWI a pertinent alternative benchmark. When we published The Importance of Full Market Cycle Returns last April, we began to share the Fund's performance over the current market cycle as compared to the S&P 500, MSCI ACWI and a blended benchmark of 60% S&P 500 and 40% Barclays U.S. Aggregate.[4] Bearing this in mind, the Fund's downside participation is more in line with its historic average. Crescent captured 65% of the MSCI ACWI decline of 18.11% since the May 2015 peak.[5] It never feels good to see your portfolio decline in value but over three decades of investing we appreciate that we can neither "time" nor always be in step with the market.

With the average S&P 500 stock down about 18% from its 52-week high, 2015 was not a good year any way you cut it.[6] Crescent's winners for the quarter and year contributed 2.08% and 2.34%, respectively, while its losers detracted 0.95% and 2.86%. The more cyclical companies, particularly those with commodity exposure, were the weaker part of our portfolio. In hindsight, we thankfully had a small allocation to such businesses.

Winners		**Losers**	
2015 – Q4	**2015 – Year**	**2015 – Q4**	**2015 – Year**
Microsoft	Microsoft	Meggitt	Oracle
General Electric	Alphabet (A and C Shares)	Naspers/Tencent Pair Trade	Alcoa
Alphabet (A and C Shares)	General Electric	Undisclosed[7]	Joy Global
AIG	AIG	Owens-Illinois	Naspers/Tencent Pair Trade
United Technologies	CVS	Navistar Sr. Notes (Various Issues)	Meggitt

[3] May 21, 2015 = market peak. January 20, 2016 = most recent close when this letter was written.
[4] The Importance of Market Cycle Returns can be found on our website, www.fpafunds.com.
[5] May 21, 2015 through January 20, 2016.
[6] Bloomberg. December 31, 2015.
[7] Some positions in the Fund have not been disclosed.

We had some puts and takes that drove 2015's performance. Microsoft and Alphabet (formerly Google) performed quite well but Oracle lagged. Oracle continued to transition its business to the cloud last year but it has been proceeding more slowly than investors or the company expected. Concern about the transition and weak software license sales led to the stock's decline. Given the undemanding valuation and high level of recurring revenue, we used a drop in the share price to increase our position.

Weak aluminum prices and inventory adjustments in the aerospace supply chain negatively impacted Alcoa's profitability and its stock price in 2015. We support the company's decision to separate its highly engineered, value-added aerospace business from its commodity aluminum operations. As the price has declined in the last year, we have doubled the number of shares we own and are hopeful that the pending spin-off will create clarity and value for the enterprise.

Joy Global was with hindsight an outright mistake, a poor investment decision that we wish we could take back. When analyzing the situation, we gave too much weight to the company's strong market position and attractive aftermarket sales profile. We failed to appreciate the degree to which the coal market had changed. Many regions in which Joy has a particularly strong competitive position are likely to produce significantly less coal going forward. This has resulted in a permanent impairment to our position in Joy. Realizing our mistake, we have reduced the position.

This is a challenging time and we maintain a more risk-averse portfolio. Interest rates remain near historic lows and the Fed has begun tightening for the first time since 2006. The global economy is muddling along at best, with the China growth engine sputtering. And stocks aren't particularly cheap. We fear, as is oft intoned in television's Game of Thrones, that "winter is coming." We wish we knew when the weather would change. Since we don't, we want to make sure we always have a heavy coat on hand to keep us warm. Although the Fund's risk exposure[8] has increased somewhat as markets have declined, it remains just 61%, which offers us plenty of room to deploy capital should asset prices fall to more attractive levels of risk and reward.

We are, as always, conscientious about matching assets and liabilities. We appreciate that our mutual fund shareholders have daily liquidity and therefore consider, in turn, the liquidity of the investments we make. The greater the liquidity, the easier it is to purchase or exit a position. Selling an illiquid position is of greater concern today, given this more volatile market. If a security owner is forced to sell a position, whether it be due to a margin call, redemption or some other reason, the time frame thrust upon that investor can be quite short. The negotiating leverage shifts to the buyer, possibly causing the seller to take a low price in order to convert the investment to cash. We like to be the ones taking advantage of forced selling rather than the other way around. We have two paths that afford some protection. First, we have 39% cash that can be drawn down. This has the commensurate impact of increasing our position sizes but that was already a consideration when we made the initial investment. Second, our average market capitalization of our equity positions is more than $100 billion, offering us tremendous flexibility.

Portfolio characteristics

	FPACX 12/31/2015	FPACX Average[9]
Weighted Average Market Cap.	$112.2Bn	$30.2Bn
Return on Equity	11.3%	12.8%
P/E Ratio	21.0x	16.8x
Debt/Total Capital	-18.9%	8.1%
High Yield Exposure	3.9%	12.3%

[8] Risk exposure is defined as non-cash and cash-equivalent assets.
[9] Data from 9/30/2006 to 12/31/2015.

Risk Exposure	61.3%	63.3%

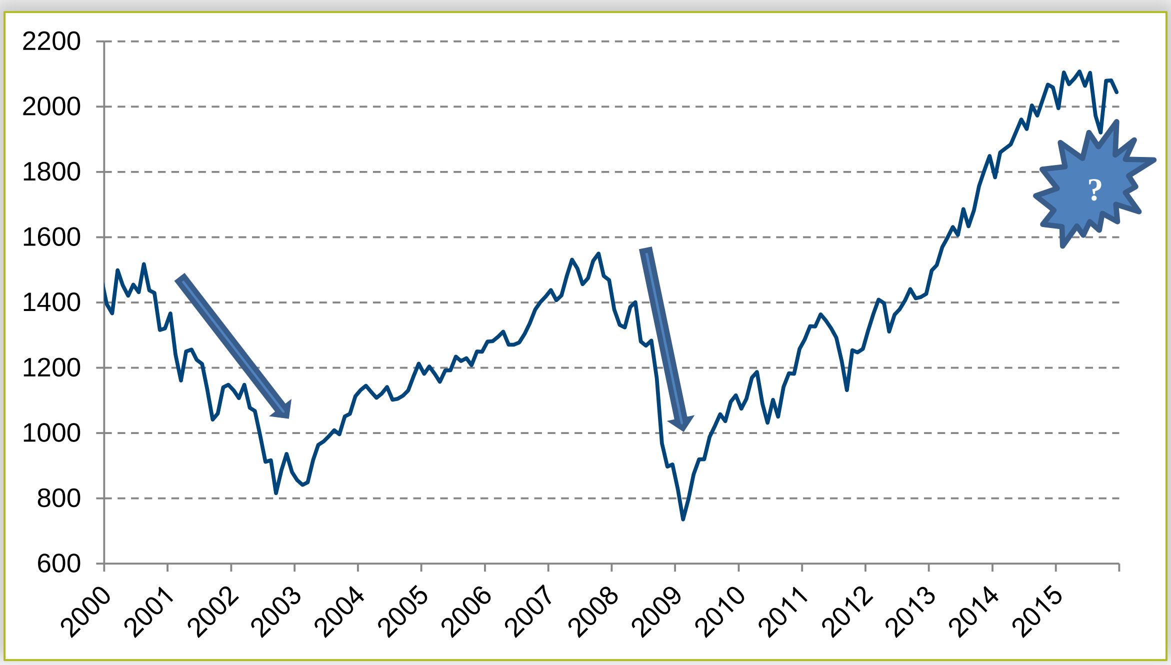
We've been arguing for some time that the market isn't cheap and, even with the broad stock market averages having declined in 2015, it's not like businesses are being given away. Take the U.S., for example, and compare the trailing median Price/Earnings (P/E), Price/Sales (P/S) and Price/Book (P/B) ratios on December 31 to the month-end of the two prior market peaks. The P/E and P/B ratios are in line with past peaks while the P/S is as high as it has ever been. No bargains here. Investment discipline has given way to complacency even for the normally resolute. The only explanation we can find for a fully-invested portfolio is that some managers seek to protect their businesses while others feel the siren call of low interest rates that make everything seem cheaper than it might otherwise.

S&P 500 valuation at most recent market peaks vs year-end 2015

	Price/Earnings (median)	Price/Sales (median)	Price/Book (median)
March 31, 2000	18.9	1.4	2.9
September 30, 2007	18.2	1.7	3.0
December 31, 2015	18.7	2.1	2.9

Although we have no idea what comes next, we haven't been - nor are we currently - particularly enamored of stock valuations. This doesn't mean the stock market won't continue to rise. We don't feel we're being adequately compensated to be more fully invested. We're a lot more excited about troughs than peaks and also note that the S&P 500 declined in the subsequent period following the prior two valuation peaks.

S&P 500[10]
2000 to 2015



[10] Bloomberg. As of December 31, 2015.

The stock market has had a number of key drivers in its most recent rise since the depths of the Great Recession. We've talked about the decline in interest rates ad nauseam but share repurchases and M&A activity have helped as well.

Companies have repurchased $2.6 trillion of stock in the last five years alone. That's more than what the Fed has spent on QE and equates to about 15% of the market capitalization of the S&P 500.[11]

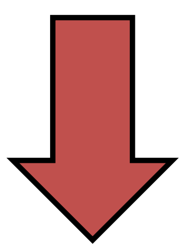
What's more, 304 public companies were acquired in 2015, a record amount that makes publicly-traded stocks feel like an endangered species.[12] The Wilshire 5000 Index is now down to about 3,700 companies, 25% fewer than in 2005.[13]

Economic and other bigger picture considerations

We are asked frequently about our expectations for the direction and level of interest rates, the price of oil, the U.S. dollar and other currencies, emerging markets, etc. We don't know. We have never known and will never know. We wish we could make book on the wagers placed by others. We'd even give them 10% in either direction. If you say you expect $50 oil, we'll give you the range of $45-$55 but we get the over/under of the outer bands. We merely acknowledge what could happen and do our best to either have our portfolio protected or set ourselves up to profit from some reversion to the mean. For example, we don't want to assume that interest rates will be low forever. In our range of outcomes, we try and anticipate, for example, the effect higher rates may have on a real estate company's capitalization rate (higher) and borrowing costs (higher).

It's hard not to be concerned about the health of the economy but it's not all bad. U.S. unemployment at 5.0% is back to pre-recession levels but that belies weakness below the surface, including people having given up looking for a job, persistent underemployment and poor labor wage growth. Although the sizeable drop in the price of oil is like a gargantuan tax break for the U.S. consumer, it still hasn't kept the U.S. economy from missing expectations last year. The rest of the world certainly isn't picking up the slack. Developed and emerging economies have hit an air pocket. China is weakening, but like every other economy the world has ever seen, it will have its ups and downs. Given its size, however, a sniffle there could cause colds globally. On the positive side, with the biggest set of consumers in the world, we submit that China's economy will be larger a decade hence. Near term though, weak global demand has caused deflationary pressures to continue around the globe, led by weak commodity prices that are now at a 16-year low. Here's what the commodity price chart looks (or at least felt) like for 2015.

Commodity Price Chart

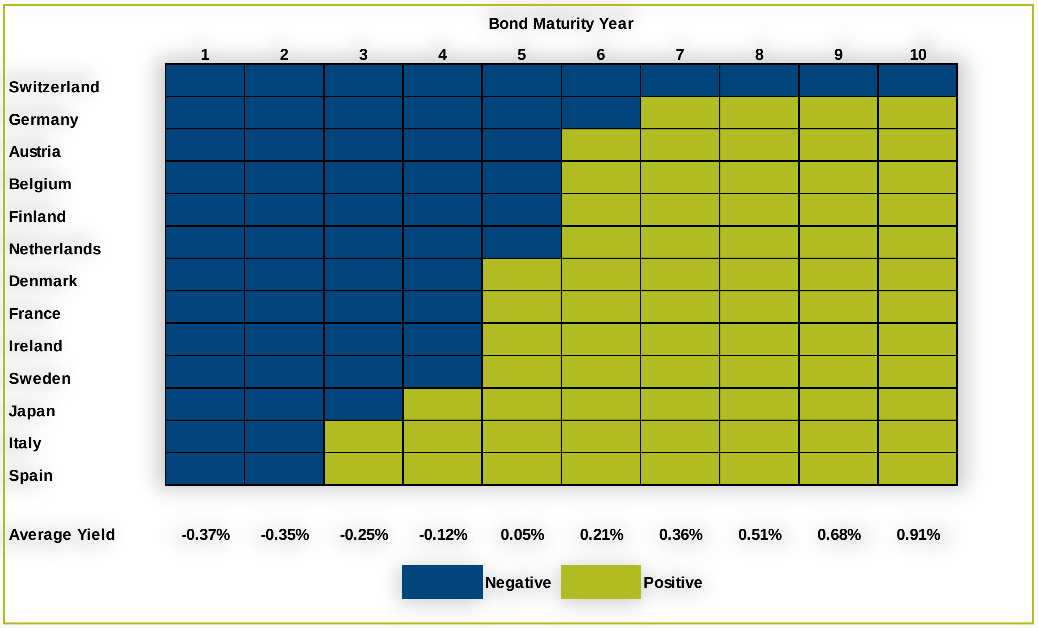


U.S. CPI is about as low as it has ever been while the EU inflation rate has been dipping in and out of negative territory for the last year or so and Japan hasn't been able to consistently create inflation since

[11] http://www.bloomberg.com/news/articles/2015-10-21/s-p-500-buybacks-m-a-have-immunity-from-high-yield-bond-losses.
[12] Bloomberg. This compares to 150 U.S. IPOs year-to-date through November 2015 and the IPO value was just a faction of the value of the acquired companies.
[13] Wilshire Associates.

1989. The universal policy response has been to both print money and drop interest rates to all-time lows. It surprises us that with negative sovereign yields across Europe and Japan, we haven't seen any whiff of inflation.

Negative Sovereign yields across Europe and Japan[14]



If you had asked in 2009 if inflation would have materialized as a result of aggressive monetary policy, we would have said that that would most likely happen and we would have been wrong. It does seem that central banks will keep trying until they conjure inflation. Therefore, we argue that we'll probably see a deflationary path to inflation in which the medicine becomes the problem. At this point, though, finding hints of inflation despite unprecedented monetary policy seems a little bit like playing "Where's Waldo?"

Former Fed Chairman Ben Bernanke recently discussed the idea that the Fed might have no choice but to drop rates below zero for the first time in history. He has said, "I think negative rates are something the Fed will and probably should consider if the situation arises."[15] He also said, "there are things the Fed can do, but none of them are incredibly attractive."[16] Experts generally thought negative rates weren't possible because people would just put their money under their mattresses rather than pay for the right to warehouse their money. Recent experience in Europe, however, suggests otherwise.

Central banks in developed economies implement the abstract and theoretical yet history doesn't show us any successful application of similar methods. If the Federal Reserve, the European Central Bank and the Bank of Japan had the answers, we wouldn't have plumbed such depths during the most recent recession and the expected inflation targets would have been met with the most aggressive global easing the world has ever seen.

These central banks have lots of tools but it seems like their hammer is their preferred tool and everything is a nail. Even so, investors around the globe still count on them to fix our economies. With

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[14] Bloomberg. January 8, 2016.
[15] http://www.marketwatch.com/story/bernanke-says-fed-likely-to-add-negative-rates-to-recession-fighting-toolkit-2015-12-15.
[16] http://fortune.com/2015/10/21/bernanke-negative-rates/.

no other apparent solution to our global travails, one can't be blamed for believing. "When my love swears that she is made of truth, I do believe her though I know she lies," said William Shakespeare.[17] Blind faith in central bankers has trumped a free market.

We wish we understood the full ramification of central bank policy and further wish we could offer a solution. It's not like it's so easy to raise rates as an increase could hurt the housing market, reduce equity values and cause financing costs to increase, hurting both corporations and the U.S. governmentamong others. For every one percent change in the U.S. government's borrowing cost, about $160 billion will be added to the annual deficit.

Economic cycles won't ever be avoided but it would be nice to have the confidence that they won't increase in amplitude. The majority seem to be guided blindly by the few but heed the warning: Be careful when you follow the masses… some would argue the "m" should be silent.

Not wanting to end on a negative note, at least the U.S. banks are in as good shape as they've ever been.[18] That's something.

High Yield

Like the broader stock market, high yield indices dropped as well, with the Barclays U.S. Corporate High-Yield index down 4.47%, its first annual loss since 2008.

We don't see junk bond investing as a business. It's like a vacation home. We go when the weather's nice although in this case we mean stormy. Our corporate debt portfolio is effectively equity, albeit in a more secured form but with many of the associated risks. Meanwhile, we are spending our time trying to determine which vacation spot we'd like to visit.

The Fund's investment in high yield currently stands at 3.9%. As spreads widened between high-yield bonds and Treasuries, we continued to increase our exposure last quarter but only moderately as we expect - dare we say hope for - more disruption to come. Levered energy and mining bonds have led the charge downwards and investing in them thus far has been like putting your hand in a bee hive but some other sectors have felt the sting of turmoil in high-yield too, just not as deeply – retail, industrial and gaming to name a few. It's always a delicate balance to want to purchase securities at lower prices yet not wait for a price that's so low that it never gets there and your capital isn't put to work.

What we have purchased so far we believe will prove to be profitable as a basket. Staying power is required for these types of trades to work. You can't just buy something and wish it higher, particularly in any given period. You just might have to be there for the duration. Fortunately, we have that type of patience and we hope that our regular and detailed commentaries allow our shareholders to persevere alongside us.

The Fund's historic average high-yield exposure is 12.3% but we have been more than 30% invested in the asset class in the past.[19] High-yield bond spreads began to widen in the second half of 2015 but most of that expansion was due to the energy complex (see below), which represented about 13% of Barclays' U.S. Corporate High-Yield index at the beginning of 2015.

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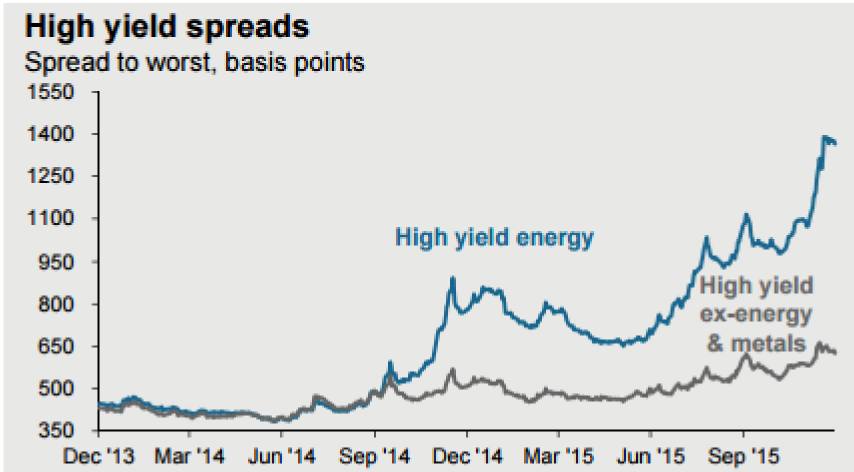
[17] William Shakespeare. Sonnet 138.

[18] According to a July 2015 report by the International Monetary Fund, "Compared to the pre-crisis period, [U.S.] banks have strengthened their capital positions, including relative to their international peers, hold more liquid assets, and are less levered." http://www.imf.org/external/pubs/ft/scr/2015/cr15170.pdf.

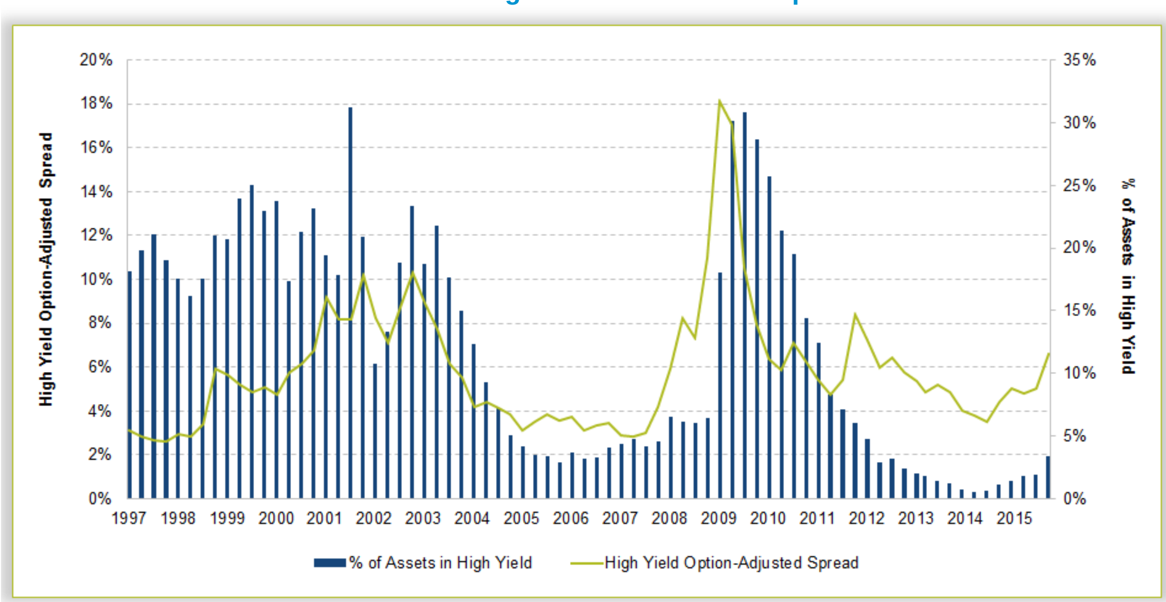
[19] Data from 3/31/1996 to 12/31/2015.

High yield weakness mostly attributable to energy[20]



The Fund's high-yield exposure is small, albeit off its lows – see the blue bars in the chart below. That can be explained by the still relatively low yield of these more speculative corporate bonds. Although spreads have widened to 7.1% and are slightly above average, they are joined at the hip with historically low interest rates.[21]

BofA Merrill Lynch US Master II Option-Adjusted Spread
Vs
FPA Crescent High Yield/Distressed Exposure



We prefer to focus on yield since one can't subsist on spread alone. When yields are high, even when spreads are below average, we can be comfortable with high-yield exposure, as was the case in 1997-98 as shown above. Index yields are currently 8.9%, 1.5% below average.[22] We require a higher yield to get a good return, particularly one that compensates for the risk investment.

[20] J.P. Morgan. As of December 31, 2015.
[21] A U.S. corporate bond "spread" is the bond yield in excess of a U.S. Treasury of a comparable maturity.
[22] BofA Merrill Lynch US High Yield Master II Index. Data from 1/31/1989 to 12/31/2015.

BofA Merrill Lynch High Yield Index (YTM) vs. average of 5- and 10-year US Treasury yields[23]

As of Dec. 31	High Yield	5-Year UST	Spread vs. 5-Year	10-Year UST	Spread vs. 10-Year
Current	**8.9%**	1.8%	**7.1%**	2.3%	**6.6%**
High	21.7%	9.5%	19.8%	9.3%	18.8%
Low	5.8%	0.6%	2.8%	1.5%	2.8%
Average	10.4%	4.5%	5.9%	5.0%	5.4%

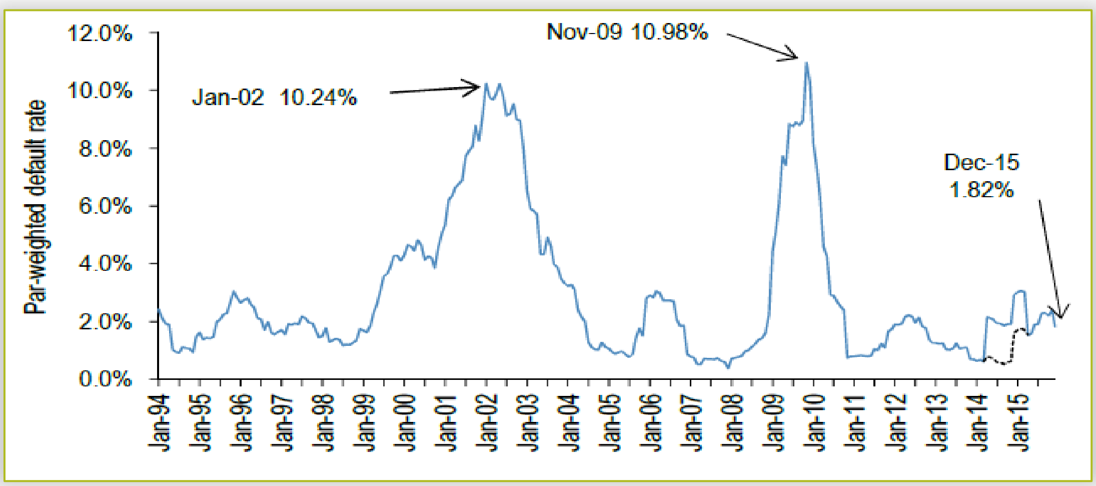
In waiting, we think we are being appropriately prudent rather than greedy. We have seen spreads and yields in excess of 20%. We don't know if they'll blow out as much in the future but we aren't going to get that aggressive until they at least move in that direction.

The net yield of a high-yield bond portfolio takes into account the portfolio's average yield-to-maturity at purchase, default rate and recovery rate. Let's consider each in turn.

Yield: As discussed above, the average yield-to-maturity on junk bonds has increased but could certainly go higher if default rates increase and/or recoveries decline.

Default rate: In the last twelve months, default rates, calculated on both number of issues and dollar value, were at historically low levels. A rising default rate could cause high-yield bond prices to drop further, which increases the starting yield. Based on par value, trailing twelve month default rates were running just 1.8% at year-end 2015.[24] This is a far cry from the approximate 11% default rate seen in 2009. Although we aren't waiting for peak default rates, we also lack the disposition to commit capital to junk bonds when defaults are far closer to their historic lows.

Default Rate (based on par amount) – Trailing Twelve Months



Recovery rate: After a company defaults on its debt, there is a restructuring or liquidation process that results in recovery to the debt holder for anywhere from 0% to 100% of the par value of the debt. Since 1982, high-yield bond recoveries have averaged 41.5%, but 2015 was well below average at just 28%, thanks to the horrible recoveries seen thus far in the debt of bankrupt energy companies.

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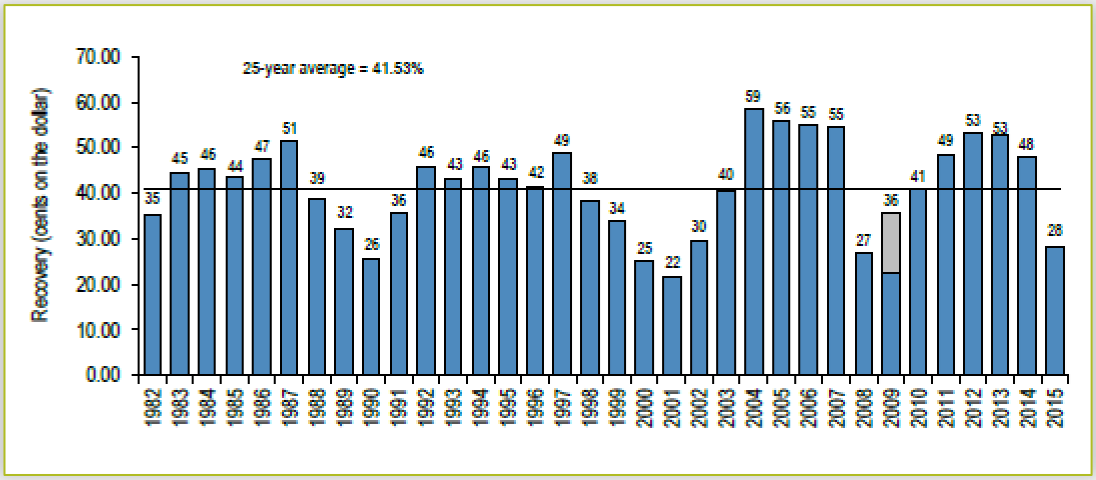
[23] Federal Reserve Bank of St. Louis. BofA Merrill Lynch US High Yield Master II Index. As of December 31, 2015.

[24] Default rates based on number of issues were 2.8% for the twelve months ended December 31, 2015. The more relevant number to an investor with significant capital is the dollar amount, i.e., par value, that defaults.

High Yield Bond Recoveries (1982-2015)[25]



The return distribution of a high-yield portfolio can be considered in the context of the three variables mentioned above: gross or starting yield, default rate and recovery. To aid in understanding our thinking, we lay out a range of incremental outcomes – depicted in the table on the following page– beginning with what yields were at the end of 2014 and culminating in the extreme case of yields seen during the financial crisis in early 2009. We use various starting yields, average vs. peak default rates and average recoveries in our scenarios.

- Case 1: We use the 7.0% gross index yield at year-end 2014 and apply the historic average default rate of 3.6% and recovery rate of 41.5%. The net yield-to-maturity/recovery ("net yield") would be 4.9%. However, if default rates were to hit peak levels, then the net yield would decline to 0.6%, and if recoveries were to be below average then the net yield could become a loss.
- Case 2: High-yield bonds declined in 2015, so the gross yield was higher at year-end 2015 than it was at the end of 2014. Using the same default and recovery assumptions as Case 1, Case 2's range of outcomes extends from 0.3% to 6.8%.
- Case 3: We use the yield-to-maturity of the representative account's high yield book of 13.4% at year-end 2015 as the starting point, which was 4.5% wider than the index. With the same default and recovery assumptions as the prior cases, the range of expected returns (if held to maturity) improves to 4.8% to 11.3%.
- Case 4: This is the "What if" scenario. What if yields reached past peaks? Keeping the other assumptions constant, the net yield range would improve further to 11.4% to 17.9%. [26]

[25] Moody's Investors Service; J.P. Morgan. January 4, 2016.
[26] There can be no assurance that such yields will be achieved in the future.

High Yield Bond Return Distribution[27]

Gross yield - (Default rate x (1-Recovery rate) = Net yield

	Gross Yield		Default Rate	Recovery Rate	Net Yield
Case 1	7.0%	BAML HY Index	3.6% avg	41.5% avg	4.9%
		12/31/2014	11.0% peak	41.5% avg	0.6%
			11.0% peak	22.0% trough	-1.6%
Case 2	8.9%	BAML HY Index	3.6% avg	41.5% avg	6.8%
		12/31/2015	11.0% peak	41.5% avg	2.5%
			11.0% peak	22.0% trough	0.3%
Case 3	13.4%	FPA Crescent	3.6% avg	41.5% avg	11.3%
		12/31/2015	11.0% peak	41.5% avg	7.0%
			11.0% peak	22.0% trough	4.8%
Case 4	20.0%	High Gross	3.6% avg	41.5% avg	17.9%
		Yield Environment	11.0% peak	41.5% avg	13.6%
			11.0% peak	22.0% trough	11.4%

Although we aren't waiting for Case 4, you'll likely find our exposure to junk bonds will rise should yields continue to increase. We cannot surmise how the market will unfold but we hope for a better point of entry. We hope further that the gross yield, default rate and recovery rate in our own portfolio will prove better than the market. If so, our potential gain would be even better than what's been depicted above.

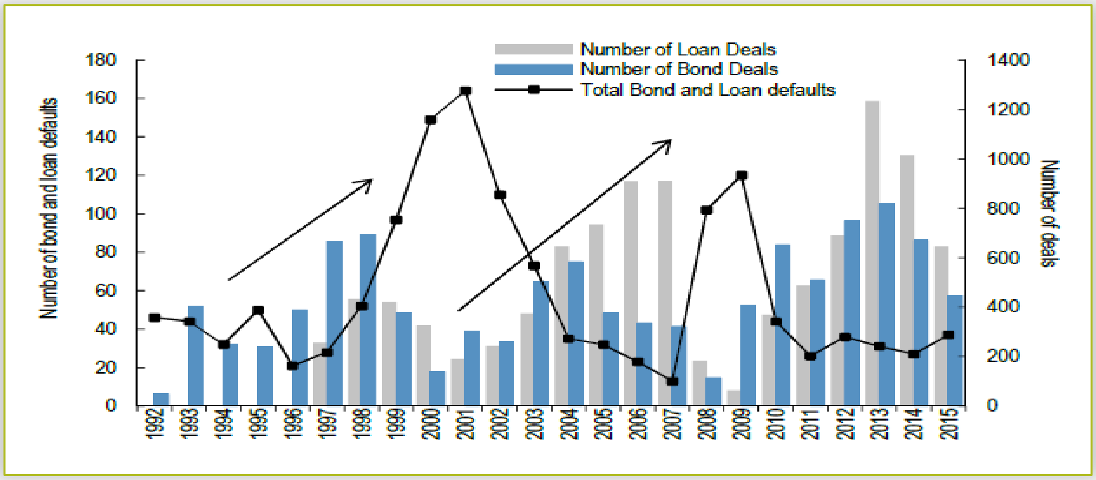
We've just lived through the most prolific period of junk bond issuance in history. Some $1.7 trillion worth of high-yield bonds have been issued since 2010 and more than $300 billion of those were CCC or non-rated. We expect some portion of this to be our opportunity set.

With the massive amount of loan issuance having occurred recently, many of these companies don't have near-term refinancing or repayment risk. The maturity bubble ramps with $760 billion of bonds maturing in 2020-22, roughly *half* of the high yield market. That doesn't mean that spreads and yields can't blow out sooner. The bonds of some companies that don't have any debt maturities in the next few years are already trading at 50 cents.

The default rate has begun to uptick contributing to the recent decline in high-yield bond prices. Liberal loan issuance has led to an increase in defaults in the past and we don't see why that wouldn't be the case in the future.

[27] FPA; J.P. Morgan. 1982-2015.

Easy credit → increase in defaults[28]



Yields could rise further if the economy weakens or a company missteps or faces a lack of capital available when existing debt matures. Any of those scenarios could provide us with an effective place to deploy capital in the not-too-distant future. Until such time, there's good reason for us to tread cautiously. For example:

- With more high-yield bonds having been issued than at any point in time in history, what happens when it comes time to refinance? Will the yields and spread be higher than they are today, thereby increasing a company's cost of debt? Will enough capital even be available?
- The high-yield market has never lived through an increase in rates. What happens if rates rise? How many companies will remain solvent with higher borrowing costs?
- Much of the liquidity in the high-yield market has dried up. As we pointed out last quarter, the bid/ask spread on corporate high yield lacks relevance, becoming more of an invitation than an actual indication with any real size on either side.
- There is some capitulation out there. One well-known high-yield fund is in liquidation. We believe the casualties we've seen thus far won't be the last. If it gets worse, it will get worse. By that, we mean at the second derivative, selling begets selling. When default rates rise, or if high-yield mutual funds suffer outflows, or if the economy weakens, then prices would likely follow.

Members of our team have spent a tremendous amount of time since last summer analyzing distressed debt opportunities across the energy complex but we have failed to find a level of comfort to take any significant position. Prices have been severely depressed but that doesn't mean cheap. Thus far, we can only be thankful as energy and related securities continue to find new lows and the bankruptcies filed have had a far lower-than-average recovery. We frequently say that returns are sometimes driven not just by what you own but by what you don't own. There are other sectors on which we've spent time and some have made their way into the portfolio. Should junk/distressed yields increase, you may expect that Crescent's exposure will increase along with it. We will spend some time discussing individual positions at that point.

Conclusion

Should markets continue to rise, those more aggressively postured will perform better than us but it does beg the question how one separates skill from excessive risk-taking. Distinguishing between the

[28] J.P. Morgan; S&P LCD. January 4, 2016.

two isn't easy and may even prove impossible. It's easy to look smart in a rising market. "Smart" are those who leverage a fully-invested portfolio. "Smarter" still are those who invest in the most financially-leveraged entities. It's not until the temperature drops in an overheated market that one realizes that the "smart" managers may not be dressed appropriately. We try not to lose our shirts and have historically been defensive in weaker market environments but we haven't forgotten about the upside, having performed well over market cycles. We hope that's some indication of capability more than just assuming undue risk and relying on luck.

We can look really smart or really stupid over the short-term. We should be defined not by that, however, but by what happens over the long-term. We think our strength is time arbitrage. What isn't attractive today will be so in the future as long as you have both the patience and the staying power to stick around. Our broad charter, value-oriented philosophy, replicable process and intellectual honesty should put us in a position for that success as has been memorialized in our Investment Policy Statement, which is available for your review on our website (www.fpafunds.com).[29] We appreciate our partnership.

Respectfully submitted,

Steven Romick

Co-Portfolio Manager

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[29] http://www.fpafunds.com/docs/fpa-crescent-fund/2015-09-contrarian-value-policy-statement.pdf?sfvrsn=2