

October 21, 1996

Dear Fellow Shareholders:

The stock market experienced tremendous volatility in 1996's third quarter. At one point in July, the NASDAQ Composite index declined more than 16% from the high reached in the spring. The S&P 500 experienced a decline of approximately 10% from its recent high. A strong rally in the last week of July lifted stocks from their trough, saving a disastrous month and turning it into one of merely dismal performance. The FPA Crescent Portfolio ("Crescent"), formerly The Crescent Fund, performed relatively well in July despite a negative return of 2.3%. However, this still compares favorably to the S&P 500 and Russell 2500, which declined 4.5% and 7.3%, respectively. Our Balanced Benchmark, buoyed by the bond market that was up only slightly for the month, declined 4.3%.

We are pleased to report that Crescent continues to perform well, both absolutely and relative to our peers. The comparative returns for Crescent and its relevant benchmark indices are shown below.

<b>Time Period</b>	<b>Crescent</b>	<b>Balanced Benchmark</b> 60% Russell 2500 40% LB Gov't/Corp	<b>Russell 2500</b>	<b>Lehman Brothers Gov't/ Corporate</b>	<b>S&amp;P 500</b>
<i>Period Ended 9/30/96</i>					
Quarter	4.5%	2.2%	2.3%	1.8%	3.1%
9 months	15.1%	7.6%	12.8%	-0.2%	13.6%
Last 12 months	17.7%	11.4%	15.8%	4.5%	20.4%
<i>Annual</i>					
1995	26.0%	26.7%	31.7%	19.2%	37.5%
1994	4.3%	-2.0%	-1.1%	-3.5%	1.3%
<i>From Inception*</i>	16.4%	11.7%	15.5%	5.9%	16.6%

\*Inception is 6/2/93. Returns from inception are annualized. The annualized performance of the Russell 2500, Lehman Brothers Government/Corporate, and S&P 500 Indices begins 6/1/93. The data quoted represents past performance and is not indicative of future performance. An investment in the Fund may fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost.

We will make mistakes although we endeavor to make as few as possible. We are not like Babe Ruth, looking to lead the league in home runs (Mr. Ruth also led the league in strikeouts). We would prefer to be Joe DiMaggio, who got on base with much greater consistency. (This baseball analogy is probably not a good one, considering that a ball player can collect seven figures for batting .300, i.e., getting things right 30% of the time.) A recent position that we have taken in Charming Shoppes, Inc. convertible bonds offers the potential of a DiMaggio-like base hit. Charming Shoppes is a women's apparel retailer with more than 1,200 stores nationwide. The company had fallen on hard times when last year their board appointed Dorrit Bern as their new chief executive. Ms. Bern brought with her a wealth of experience and previous success, including a successful turnaround of the women's apparel business at Sears. We believe the bond's credit quality to be good. The company's cash flow covers its interest expense more than 15x. At purchase, these bonds offered a yield of 7.5% for 10 years, 1% better than a 10-year Treasury. Furthermore, if Ms. Bern proves successful, we think that the convertible bonds could provide an annualized rate of return in the mid-teens or higher.

Recently, I heard a gentleman say that, with his long-term investing orientation, he knows he will suffer through periodic declines in his investments due to the reaction of more emotional investors to short-term factors. This gentleman likened selling a stock because of one weak quarter to kicking his child out of the house because of one bad report card. Nevertheless, not selling on bad news can sometimes lead to errors.

Normally, in our reports to shareholders, we address investments that we currently find attractive both as a point of interest and to help you understand our investment philosophy. You might also find it interesting to learn of our mistakes, while I find it therapeutic to discuss them. Heilig-Meyers, a home furnishings retailer, recently announced its desire to purchase Rhodes, a furniture company we own. Normally, Wall Street calls this a "take-over." Unfortunately, in this case, Rhodes shareholders have been offered stock in Heilig-Meyers worth \$7.50 per share, 18% less than where the stock had been trading in the days before the offer, and 34% below our cost. This should have been called a "take-under." What went wrong? When we established the position, the stock was trading at low price/earnings and price/book ratios and had a high return on capital. The company and insiders also thought their stock inexpensive and had been buying additional shares. Management unfortunately made two ill-advised acquisitions, increasing debt dramatically at a point in time when the retail furniture market was softening. The unsuccessful integration of these acquisitions along with the additional debt caused Rhodes to lose its financial flexibility in a difficult environment. By selling to Heilig-Meyers, Rhodes management kept their jobs as well as a compensation arrangement with Heilig-Meyers whereby they will receive certain incentives when and if they successfully integrate their acquisitions. Furthermore, they now will hold stock in the parent company. If they fix what they broke, their new parent company's stock should react favorably. Non-management Rhodes shareholders were not treated equally, as they will not receive any additional incentives if Rhodes' management corrects their mistakes. Due to these issues and the fact that we do not find Heilig-Meyers to be an unusual value, we have liquidated our position since quarter-end at prices 13% better than where the stock is currently trading.

While we aspire to "stock-like" returns (stocks have averaged 10% returns annually over the past 70 years), we believe that the portfolio has less risk than the market. Since Crescent's inception (June 2, 1993), we have achieved only positive performance on a quarterly basis. Contrarily, the stock market lost money in three quarters,

while the bond market lost money in four. We have maintained a lower risk profile by making "value" investments in stocks and higher yielding bonds. The table below reflects this orientation.

<b>Ratios (Weighted Average)</b>	<b>Crescent</b>	<b>S&amp;P 500</b>	<b>Lehman Bros. Gov't/Corp.</b>
<i>Stocks</i>			
Price/Earnings 1996 estimated	14.8x	16.2x	
Price/Earnings 1997 estimated	11.0x	14.6x	
Price/Book	1.8x	3.4x	
<i>Bonds</i>			
Duration	4.2 years		5.0 years
Maturity	5.9 years		9.3 years
Yield	9.9%		6.7%

Crescent's stocks have a lower price/earnings and price/book than the market, which we feel offer more downside protection in a weak market environment than the market averages. Crescent's bonds have more credit risk than the U.S. Treasuries, but by using our equity analytical abilities and the proper due diligence, we are comfortable with the issues we own. In addition, our average yield is 3.2% better than the Lehman Brothers Government/Corporate Index. However, since we are assuming additional credit risk, we attempt to manage interest rate risk by having a shorter average duration and maturity.

Below are Crescent's ten largest holdings, excluding short term investments, as of September 30, 1996. These investments account for 32.5% of the portfolio's net assets:

Common Stock

Dundee Bancorp, Inc.  
 Mac Frugal's Bargains Close-outs, Inc.  
 Maxim Group, Inc.  
 Michaels Stores, Inc.  
 Pinkerton's, Inc.  
 Price Enterprises, Inc.  
 Semi-Tech Global, Ltd.  
 U.S. Facilities Corp.

Corporate Bonds

Alexander Haagen Properties, Inc., 7.5%, due 1/15/2001  
 Trump Atlantic City Associates, 11.25%, due 5/1/2006

Crescent had the following net asset composition at September 30, 1996.

Common Stocks, net	56.8%
Preferred Stocks	1.9%
Corporate Bonds	21.1%
Cash and other assets and liabilities	20.2%

Our stocks have performed quite well. We have either completely eliminated or reduced our position in a number of companies that we felt had rich valuations. Some of these positions were initially purchased a few years ago. Unfortunately, the in-depth research we insist on performing takes time and, in the interim period, we prefer to hold cash rather than to purchase a security without having reached a well-reasoned conclusion. You will notice that cash has increased since our fiscal year-end, March 31, 1996. Please remember that "cash" includes proceeds from securities sold short which must remain as collateral. If you subtract collateral cash, the adjusted cash position at the end of September is less than 17%, still high, but less than it appears.

The *Wall Street Journal* now publishes the FPA Crescent Portfolio's net asset value (NAV) daily. You can find the price listed under UAM: FPA Cres. Thank you for your continued investment.

Respectfully,



Steven Romick  
Senior Vice President  
First Pacific Advisors, Inc.