FPA Global Equity ETF (FPAG) 3-Year Anniversary Webcast Trascript

February 20, 2025

Note: Items in brackets [ ] are meant to be clarifying statements but are not part of the actual audio recording of the webcast.

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You should consider FPAG (the "Fund") investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details each Fund's objective and policies and other matters of interest to the prospective investor. Please read the Prospectus carefully before investing.

This transcript must be preceded or accompanied by a prospectus for the Funds. The Prospectus for FPAG dated January 31, 2025 can be accessed at: https://funddocs.filepoint.com/fpa-etf/?fund=fpageetf?file=FPA-Global-Equity-ETF-Prospectus.pdf. The most current prospectus' can always be obtained by visiting the website at fpag.fpa.com, by calling toll-free, 1-800-982-4372, or by contacting each Fund in writing.

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Moderator: Please note that today's webcast is being recorded. During the presentation, we'll have a question and answer session. You can ask text questions at any time. Submit your question in the questions and answers panel and click New Question to submit. If you would like to view the presentation in a fullscreen view, click the corner of the slides panel to drag and resize to best fit your view. To restore the panels to their original view, click the Restore icon from the icons on the right side of the screen. And finally, should you need technical assistance, as a best practice, we suggest you first refresh your browser. If that does not resolve the issue, please submit your issue in our question and answer panel, and someone will assist you.

It is now my pleasure to turn today's program over to Ryan Leggio. Ryan, the floor is yours.

Ryan: Good afternoon, and thank you for joining us today. We would like to welcome you to FPA Global Equity ETF's 3-Year Anniversary Webcast. My name is Ryan Leggio, and I am a partner here at FPA and lead Client Relations. The slides, audio, visual replay, and transcript of today's webcast will be made available on our website at fpa.com in the coming weeks.

Joining me today are Brian Selmo and Mark Landecker, the portfolio managers of the Fund and partners at FPA. Brian and Mark have been portfolio managers of the ETF since its inception and co-portfolio managers along with Steven Romick of the ETF's sister fund, FPA Crescent ("FPA Crescent Fund"), since June of 2013.

[Please see slide 2] As you can see, we have a full agenda today. We expect there will be ample time for questions and answers at the end, so please, as the operator said at the beginning, add any questions you might have through the webcast Q&A tool.

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[Please see slide 3] We hope some background into why we launched the ETF will be informative for newer or prospective investors of the Fund. We are constantly listening to our client partners and soliciting feedback so that we can better understand if there are ways we can improve our existing strategies or leverage our existing capabilities to solve different issues. In that spirit, after today's webcast, if you can think of a way we can improve FPAG, please don't hesitate to reach out to me or your FPA representative.

It should be no surprise that the topic of ETFs kept coming up over the last few years. Whether because of the potential tax benefits for certain equity strategies, cost of trading on certain platforms, or ease of intraday trading, it is clear that ETFs had a lot to offer. In addition, based on market studies and other data points, I thought it was highly likely ETF usage would be materially greater with our client base in the coming decades.

Then the question became: was FPA already managing a strategy well-suited for the ETF structure? The ideal strategy would have the first two characteristics I will describe in a moment, and also potentially the third.

First, the strategy has to have significant capacity. That is because it's very hard, though not impossible, to limit inflows into an ETF.

Second, the portfolio managers need to be comfortable with daily holding transparency and what that transparency might mean for other strategies at the firm. While there are semi-transparent ETFs that have transparency similar to mutual funds that help solve this issue, those have not gained traction in recent years with investors for a lot of reasons. And so we thought that if we were going to launch an ETF, it needed to be fully transparent, which is what the vast majority of both index and actively managed ETFs are.

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Third, ideally, it would be an equity-oriented strategy to take advantage of the potential tax efficiency benefits of the ETF structure.

It turns out that we had been running a strategy that met these three criteria. We had been managing a larger-capitalization global equity strategy for institutional clients, leveraging the stock selection capabilities of the FPA Crescent team. This strategy came to be because we had a large institutional client who appreciated the equity security selection in Crescent, ran the numbers, and decided they wanted just that rather than the full capabilities of Crescent. Long-time Crescent investors will be familiar with that longer-term equity track record I'm referring to, and I would encourage those interested to learn more about that topic to watch the replay of the Q4 Crescent webcast, which is now on our website.

With that background, we spent a fair amount of time on this ETF project internally and talking with clients in 2021. We came to a few conclusions after that work.

One, we felt our global equity strategy could add value for clients in an ETF structure, not just for institutional separate accounts, over the long term and would be different than the existing solutions that FPA currently provides.

Two, given we were already running the strategy, we didn't believe running it in an ETF structure would be a meaningful extra burden for the portfolio management team.

Three, last but not least, we didn't believe it would hurt clients in our existing strategies. That's due in large part to the strategy's focus on only larger-capitalization equities, which greatly reduces issues related to capacity management and holdings transparency that I referenced previously.

I'm happy to say our clients agreed with our assessment. With their support, we launched the ETF in late 2021 with FPA partner and client seed capital. We are grateful for clients who helped get the Fund off the ground during the first year.

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We haven't really marketed the ETF much since. This is our first FPAG webcast. But thanks to absolute performance and additional client interest since the launch, [as of December 31, 2024] the ETF has nearly $200 million in client assets.

So, with that background as to why we launched the ETF, let me turn it over to Brian to discuss the Fund's strategy and investment process. Brian?

Brian: [Please see slide 4] Thanks, Ryan. So FPAG, or the Contrarian Value Equity portfolio, is a fully invested global equity portfolio in which we endeavor to outperform the market or the index over the long term, rolling 3- and 5-year periods. That would be consistent with the equity performance exhibited by the Reference Portfolio, Crescent [long-only] equities, over the long term, which Ryan mentioned earlier. FPAG, Contrarian Value Equity, is managed by the same team that manages Crescent. We currently manage a bit over $2 billion in this fully invested strategy, including the mutual fund FPAG.

[Please see slide 5] We'll now move to page 5: the process of managing Contrarian Value Equity. FPAG is [built] from a reference portfolio, which is made up of the large and liquid equities in Crescent. So, if a name is in FPAG, it is also in Crescent. But there are many names that are in Crescent—such as debt, small caps, illiquids, derivatives, privates, and cash—that will not be in FPAG.

So we'll move on to Mark on page 6 for performance.

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Mark: [Please see slide 6] Thanks, Brian. So, as you can see on this slide, FPAG has been around since the launch in December 2021. As a comparator, we've included the MSCI

ACWI, the All Country World Index, which we consider to be a reasonable benchmark, given what Brian has told you about the Fund a few moments ago.

Now, looking at the numbers, you can see we lagged a little bit behind the ACWI in 2024, but since inception, we are roughly 200 points ahead on an annualized basis. But we caution this is just three years and not a full market cycle.[1] Next slide.

[Please see slide 7] It immediately warms our heart that both FPAG and Crescent are actually ahead of the ACWI over the past three years and, in fact, Crescent is slightly ahead of FPAG. As for the why on Crescent versus FPAG, it's due primarily to material outperformance by Crescent during the 2022 market selloff, which should not be a surprise as Crescent had some cash and hedges that cushioned the downturn while FPAG did not.[2]

On a related note, one question we get asked quite often is how we would expect the performance of FPAG to compare to that of Crescent over a full market cycle. While somewhat reluctant to opine as the market has a way of making what seem like relatively straightforward predictions look foolish in hindsight, we'll go on record that we believe over a full market cycle, FPAG should outperform Crescent, as markets generally go up more often than they go down, but the tradeoff is that we would expect FPAG to have greater volatility than Crescent, which we would argue is the fee for hopeful outperformance rather than the bug.

[1] A Market Cycle is defined as a period that contains a decline of at least 20% from the previous market peak over at least a two-month period and a rebound to establish a new peak above the prior market peak.

[2] Past performance is not a guarantee, nor is it indicative, of future results.

As for our expectations of returns versus the ACWI, we wouldn't be doing this, as Brian said, if we didn't think we could outperform over a full cycle.[3] And for that matter, actually, over multiple cycles.

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On that topic, Brian keeps a Packers replica football in his office to spike the next time Green Bay wins the Super Bowl. But, given he may not get the opportunity again in his lifetime, perhaps we'll all get together in 2041, and should the scoreboard reveal FPAG over ACWI, we'll give Brian a chance to do a virtual spike on our 20th anniversary webcast. Either that, or we can all watch him dance the Griddy. Next slide please.

[Please see slide 8] Those of you who listen to the Crescent webcast or read the commentaries, the names of the contributors and detractors should not surprise you.[4] The two top gainers in the portfolio during this past 12 months were tech stocks, in Alphabet and Meta, while the two largest decliners were consumer staples in the form of Heineken Holdings and JDE Peet's. If you'd like to read more about these names, you can see historical Crescent commentaries, which have featured discussions on each. Next slide.

Brian: [Please see slide 9] Thanks, Mark. In terms of the top 10 holdings, you would also recognize these from the Crescent webcast. The few things that I will call out, which is consistent with how we've managed the Reference Portfolio over the last 15 or 16 years, is that we have a fairly long average holding period. These top 10 names have been held

[3] The Fund does not include outperformance of any index in its investment objectives. Past performance is no guarantee, nor is it indicative, of future results

[4] Crescent Fund webcasts and commentaries can be found at: https://fpa.com/funds/overview/crescent

by our group, the research group that's responsible for FPAG, for over 8 years on average. And in fact, the Reference Portfolio—Crescent equities—has an average holding period, over more than 30 years, of [approximately] 5 years for an individual security.[5] We would expect this to be similar and consistent in FPAG.

I would also note that we have a high [average annual] active share of around 90%. That is not a one-year, one-off statistic but is actually very consistent with what the active share has been for FPAG [since inception] and for the Reference Portfolio for over a decade.[6] So, while we aspire to beat the index, we aspire to doing it by being index-unaware rather than by matching or closet, you know, following it.

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[Please see slide 10] We'll go to the next page, page 10. This is a current snapshot of the Global Equity portfolio, FPAG. Now, what's important to point out is that this is an *ex post* aggregation of our exposures. For those familiar with our strategies, our exposures come from a bottoms-up process where we seek out the best risk/rewards and long-term compounding opportunities. We do not start with any preconceived notion of where the portfolio should be invested, whether that's by company domicile, geography, or by industry codes. While we expect the majority of FPAG over time to be in market caps above $10 billion, we do have the flexibility to buy businesses [in lower market caps] as long as they are sufficiently liquid, and we, of course, will endeavor to take advantage of that opportunity set when we find value in the market. Next page.

[5] Time period referenced is from June 2, 1993 through December 31, 2024.

[6] The average annual active share percentage for the FPA Global Equity ETF from since inception to December 31, 2025 is 91.39%. The average annual active share percentage for the FPA Global Equity ETF from January 1, 2014 to December 31, 2024 is 93.03%.

[Please see slide 11] A brief overview of our activities in terms of bought and sold in the year. If I try to summarize this in a few short lines, I would say that we've been buying some names that are out-of-favor, [what we believe are] durable businesses. There is, both on the new names as well as the additions, there is a probably slight weighting towards or increased weighting towards consumer staples and more midcap type companies. And the businesses that we've sold we think are of somewhat lower quality than the average in the portfolio, and also possibly some that have gotten just a bit too expensive for us.[7]

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[Please see slide 12] Moving on to the next page, on page 12, we show a snapshot of the FPAG valuation metrics compared to the ACWI. I'd first point out that these are unadjusted numbers, but they do point and paint a directionally correct picture, which is that the FPAG portfolio is cheaper than the index on traditional metrics and has greater growth prospects. We think that a portfolio with lower valuation and superior growth prospects should, over time, outperform. There are no guarantees; in any year or any couple of years, our portfolio is certainly apt to look very different from the index, both positively and negatively, but again, over rolling 3- and 5-year periods, a portfolio of durable, high-quality businesses at reasonable valuations, with favorable future prospects should pull ahead in time.[8]

[7] The information provided does not reflect all positions purchased, sold or recommended by FPA during 2024. It should not be assumed that an investment in the securities listed was or will be profitable.

[8] The Fund does not include outperformance of any index or benchmark in its investment objectives.

And with that, I will turn it to Mark for an example of one such company.[9]

Mark: [Please see slide 13] So Brian mentioned a few moments ago that we had been leaning into consumer staples, and we think a good example of a representative holding of the Fund would be Heineken Holdings. You can think of this essentially as an investment in Heineken itself, as that is really the only asset of value owned by the holding company, whose controlling shareholders are the Heineken family.

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As for Heineken, as many of you might know, the company is the world's second-largest brewer behind AB InBev. The company has number one or two market share positions in 71 countries across the world. Other aspects we like about the business are the premium mix, at 40% of revenue, which is supportive of margins, and the more than 50% exposure to emerging markets, which is helpful—excuse me—helpful for volumes. Lastly, Heineken has been a trailblazer in nonalcoholic beer, with the number one position globally, which has arguably been built on the back of producing a product that actually doesn't taste awful.[10]

[Please see slide 14] Now, as for why we like the beer industry, we like to say it combines the personality of a consumer staple with the economies of scale derived from

[9] References to individual securities or sectors should not be construed as a recommendation by the Fund, the portfolio managers, the Adviser, or the distributor to purchase or sell such securities or invest in such sectors, and any information provided is not a sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the security or sectors examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at fpa.com.

[10] Sources: Heineken Company. Investor Presentation and press release dated of February 12, 2025. Investor Presentation dated March 2024

Past performance is no guarantee, nor is it indicative, of future results.

an industrialized level of manufacturing and logistics. All of this takes place in markets that are generally oligopolistic, with low levels of private label penetration as compared to other consumer good categories.

Overall, we wouldn't describe the beer industry as a fast-growing market. However, given Heineken's exposure to large emerging markets where it has leading positions, such as Vietnam, India, Indonesia, to name but a few, we think mid-single digit revenue growth is a reasonable expectation, based on a combination of volume, price, and premiumization. As for profitability, Heineken is in the midst of what it calls the EverGreen Improvement Plan, which intends to pick a lot of low-hanging fruit on the cost saving side simply by rolling out best practices that have already been adopted by the majority of FMCG [(fast-moving consumer goods)] peers.

Just as an example, at the most recent Capital Markets Day [(December 2022)], Heineken management called out that the company was still running on more than 45 different ERP or technology platforms, with a goal of getting that down to something manageable over the years to come.[11] Next slide. And we'll go to the next one as well.

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[Please see slide 15] As you can see, staples valuations, particularly those in Europe, have sharply derated over the past couple of years. As noted, we've been leaning into the sector weakness, and our holding in Heineken is complemented by exposure to other names in this sector, including JDE Peet's and Pernod Ricard.

[11] Source: Heineken N.V. hosts its Capital Markets Event: EverGreen 2025; https://www.theheinekencompany.com/newsroom/heineken-nv-hosts-its-capital-markets-event-evergreen-2025/

Now, turning back to Heineken Holdings, due to Holdco trading at a discount to Opco, we are getting exposure to a name that trades at a considerable discount to the sector. When you combine our expectations of mid-single-digit operating growth for Heineken and some margin improvement, it's not difficult to present a scenario where earnings can grow somewhere in the range of 5% to 10% for the foreseeable future.

Against that, [recently] Heineken Holdings trades at circa 12 to 13 times our estimate of '25 earnings, depending on the day, which we believe sets us up well for an equity-type return based on a combination of earnings yields and earnings growth. The cherry on the sundae is that both Heineken Opco and Heineken Holdings recently announced share repurchase plans, which [we expect] will turbocharge Heineken Holding's earnings as Holdco will sell into the Opco buyback and then use the funds it receives to purchase Holdco shares, which trade at a double-digit percentage discount to the underlying value of Opco.[12] To put some math to it, [we believe] Holdco will sell Opco's shares at circa €77, and then turn around and repurchase its own shares at circa €67, increasing earnings per share for Holdco owners in the process.[13]

Back to you guys.

(00:19:49)

Ryan: [Please see slide 16] Great. Thanks, Mark. So, in summary, so far, so good, but it's only been three years. Just to emphasize what Mark said, I think we're all generally pleased

[12] Source Heineken Holdings: https://www.heinekenholding.com/investors/media-releases/heineken-holding-nv-announces-first-tranche-its-share-buyback-programme

[13] Source: Heineken Share Buyback Programme: https://www.theheinekencompany.com/investors/share-information/share-buyback-programme

with the performance, but again, three years is not that long of a time. We continue to urge our fellow shareholders to think in terms of full market cycles, not quarters and years, and I think you've heard that from both Brian and Mark, thinking in terms of rolling 3- or 5-year periods and ideally a full market cycle.

We believe FPAG is a great solution for those who have a long time horizon and are comfortable with equity market volatility. 2022 was a decent proxy of that, with global markets down on the order of magnitude of about 26%, but we know that equity markets can certainly have sharper declines and deeper bear markets. If you're comfortable with that type of volatility or greater volatility, we think FPAG's an interesting solution, and for those who aren't comfortable with that type of volatility, we obviously have other solutions we've mentioned on this webcast available at FPA.

[Please see slide 17] Three final points I'd like to make, and then we'll turn it over to Q&A.

The first is the ETF is now available on most major trading platforms, and if, for some reason, you don't see it on your platform, please reach out to us, and we'll try to get it to be made available.

The second is, for those who are newer to ETFs, we have a white paper on the FPAG portion of the website entitled "ETF Investing and Best Practices." We'd encourage all of our ETF fellow shareholders to read that white paper before investing, and again, if you have any questions about some of the points in that paper, please feel free to reach out to us.

Brian spent some time on the investment process and the strategy that underpins FPAG, but if you'd like to learn more, if you go to the FPA Crescent portion of our website, you'll see a policy statement where you can look into a lot more detail in terms of the investment process surrounding the underpinnings of FPAG.

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With that, we'll now turn it over to Q&A. While we wait for some questions to come in, there was one question we've gotten over the last few years, and that was, you know, will we have more frequent FPAG webcasts now that we've gone past our 3-year anniversary? And I think so far, the answer to that is no, for at least two reasons.

As Brian mentioned, all of the holdings in FPAG are in Crescent, and we have a robust Q&A period and portfolio discussion during those webcasts. And so, we would just encourage all clients who are interested in any in-depth portfolio discussion to log on to that webcast and ask questions where we'll answer questions regarding the holdings.

And the second is we provide quarterly commentary, FPAG letters, and if there's anything really interesting going on, we try to call those out in the letters.

And then finally, I'll just mention the portfolio manager and the Client Relations team is always available for clients intra-quarter. So, if there are questions that pop up regarding holdings or the Fund, we're happy to answer those as those come in. Either reach out to your FPA representative or email us at crm@fpa.com.

I'll pause for a moment as we compile questions.

Brian: **Yes, there's a question on can I touch on the purchase of essentially 0- to 3-month T-Bills.** And that's, there is a portion of the portfolio up to 5% that is in cash, and as the portfolio grows, there will be net purchases sort of to manage the cash portion. But it's a, you know, it's a *de minimis* amount of the portfolio, and it's not something that will go above 5.

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Ryan: Thanks for that question. We're just waiting because so far, that's the only question, so we'll just wait another 10 to 15 seconds and make sure there aren't any other questions.

Okay. That was the only question we received during the webcast. If, for some reason, we missed your question or you're having trouble answering questions through the webcast tool, please feel free to reach out to us at crm@fpa.com.

Thank you for listening to FPA Global Equity's 3-Year Anniversary Webcast. We now turn it back over to the system moderator for closing comments and disclosures.

Moderator: **[Refer to Important Risk Information – slides 20-23]** Thank you for your participation in today's webcast. We invite you, your colleagues, and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website, typically within a few weeks, at fpag.fpa.com. We urge you to visit the website for additional information about the Fund such as complete portfolio holdings and historical returns.

Following today's webcast, you will have the opportunity to provide your feedback and submit any comments or suggestions. We encourage you to complete this portion of the webcast. We know your time is valuable, and we do appreciate and review all of your comments.

Please visit fpa.com for future webcast information. We post the date and time of upcoming webcasts towards the end of each current quarter, and webcasts are typically held three to four weeks following each quarter end. If you did not receive an invitation via email for today's webcast and would like to receive them, please email us at crm@fpa.com.

We do want to make sure you understand that the views expressed on this call are as of today and are subject to change without notice based on market and other conditions. These views may differ from other portfolio managers and analysts at the firm as a whole and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

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This concludes today's call. Thank you and enjoy the rest of your day.

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