Greg: Thank you, Mark. A tough act to follow, all that ZIRP and NIRP makes me want to burp. So, this is new strategy called the FPA US Value Fund. The investment objective is to compound capital at high rates of return over full market cycles. Here are the highlights of the investment philosophy, which I'll get to in a second.

So, most important part here, most of my career I spent working for Steve Romick in the Contrarian Value strategy, almost 10 years. That was a great experience. Learned a lot from Steve. Really helped form my investment strategy. The other salient point I would tell you is alignment of interests. Aside from my home, this is my largest individual investment. So my interests are aligned. I'm eating my own cooking.

Investment philosophy. So, having worked for Steve for so long, he will tell you that the most important thing is to avoid permanent capital impairment. Just lose a basis point for the man, and he will come down on you hard. So, I've learned a lot, to not lose money. Now, permanent capital impairment is very different than a mark to market. Permanent capital impairments can come from a few different ways. Overpay for a business, invest in a mediocre to below average business and see profitability structurally decline, or lastly, actually buy a good business at a reasonable price that has too much leverage, and can't see it go through

Q = Question

a tough economic cycle without a restructuring.

So how do I define quality? Well, strong and enduring competitive positions, a growing business within a growing industry, resulting in growing earnings. Current and/or perspective high returns on capital, and last, robust free cash flow generation. Now, ideally, I'd want to invest in companies with good management teams. But the reality is, the way you can get a high quality business in a growing industry at a good price is because often, there is mismanagement. And I'll give you an example. Two investor day sessions ago, in 2012, we had the then-new CEO of a company called OmniCare. I don't know how many people were here for that investor day. But we invested in this company in the end of 2007 under a horrible management team. The guy systematically cut employees' compensation during the great financial crisis. Employee morale was low, large turnover leading to large loss of contracts. Anyways, ultimately we got a new CEO in, John Figueroa, who spoke up here, it was the beginning of a management turnaround. And at the end of the day, if you invested over that time period, you saw the stock go up four to five times over a seven year period. So, bottom line, in a perfect world, you would have all four things line up. Great business, great industry, great valuation and great management. But especially today we don't live in a fairytale world.

All right, so this is really important. I want to take you through the rules of engagement that I have to invest. Now, healthy growing industry is a must. Now, it's really interesting to know here, there is two what I call industries. You've got your growing industries, your secular growing industries, and your secular decliners. What's interesting to note is that over time, you'll see the returns of the growing industries diverge from the decliners. And this is the S&P 500 right here. So, the number one players in secularly growing industries, so CVS and Home Depot are the top performers. The number two players in their respective industries are the next two best performers, which all four out-perform the S&P. The decliners, you can see the number two player in a declining industry, goes bankrupt. The number two player, you lose 80 percent. And even the number one players in these declining industries, you lost 60 percent of your investment. So that's why it's so important to be in secularly growing industries, and invest in the strongest players at attractive valuations. It gives you good odds of above-average returns over time.

So, this strategy is fairly unique. Have the ability to invest in companies with 2 billion and above in market cap. So there's about 3,000 companies that meet that criteria. At least 80 percent of the portfolio will be invested in the US. That leaves the other 20 percent to be invested potentially in opportunistic foreign investments. And you can see here, typically 20 to 40 companies, individual positions at the time of purchase, not more than five percent, approximate average position size of three to four, and cash will not exceed 20 percent, usually not more than 10.

So this is just an illustration of the investment process. As I said here, here's a universe of about 3,000 companies, and this is not the exact, you know, process in which I get to the end portfolio. But what I wanted you to take away is that when you overlay criteria of quality in terms of return on capital, valuation, all my companies in growing industries that are at least maintaining their share if not taking share. As a result, you get very few to choose from in a typical environment, particularly now. In a cheaper environment, like an '09 period, you would expect that the number is going to be higher to choose from, but right now it's slim pickings.

This is the sell discipline. And I would say what's important here is item number two. This is the self-discipline that I have that, when an investment thesis is proven wrong, I don't rationalize even if the stock price is down. I admit my mistakes, move on. It's important to do that, because it allows you to think clearly and revisit something. It doesn't mean if you sell something, you can't revisit it. But people act very differently when a position is in the portfolio after it's gone down, versus getting it out of the portfolio and having a very clear mind where, hey, if

I'm looking at this as a new security to choose from, would I repurchase it? Would I purchase it as if it was brand new?

Like I said, this is a new strategy launched in September. It was an existing portfolio that I took over, that I transitioned throughout the month of September. So two full quarters under my belt, very early days.

As you can see here, this is not your typical equity strategy. There're certain industries where I'm not finding high quality businesses at cheap prices to purchase, so very little, no exposure here, minimal exposure here. And as you can see, I'm very overweight in certain sectors where I'm finding a lot of value.

I think this really helps encapsulate overall what I'm trying to do. So, as a Jew, I like to get value for my money. And you can see here, look at the massive difference in multiple, okay? I'm paying a lot less for higher quality, higher growth, okay? At the end of the day, that's what matters. Value.

I want to take you through an investment case study, because this is really going to encapsulate what I'm trying to do. So, two industries, very similar characteristics, okay? Industry A and industry B. Both are recession-resistant. Industry B is growing at double the rate as industry A. Industry A has a little bit higher return on capital. Year to date, industry A has trounced industry B. It trades at a significant premium, and is at the highest valuation it's been at in 10 years. Again, we've had all this talk about ZIRP and NIRP, and this industry's been distorted by having a payout ratio of about 46 percent. People are chasing yield. And so that's what happened here. This represents six and a half percent of the S&P. I've got zero exposure to this industry.

Over here, 1.4 percent exposure to S&P and I've got over 20 percent of the portfolio in these five companies. And if this payout ratio was higher, in my view, very likely that you'd see higher valuation and higher returns. Anybody want to guess what industry A is? Yes. It's a subset of consumer staples, so it's your beverage products, your consumer products. So your Coca-Colas, your Pepsis, your Campbell Soups of the world. Now, I won't give away industry B just yet. So, no, I'm not going to talk about airlines, but the other thing I learned from Steve other than to never lose money is to make sure you've got the wind at your back.

So what do these five lovely people have in common? I was going to say, beautiful smiles, but I think Tom's depressed about either the fees, or the ZIRP or the NIRP. They all have gray hair? Nope. Steve does not have a single gray hair. Look at that beautiful head of hair he's got. Wish I had hair like that. It's because I've been working for him so long. Aside from all being partners of FPA, and this undoubtedly hurts my chances in the future, they're all part of the Baby Boomer generation. So, look at that. We're in the early innings, well, first inning of this massive 50 year trend. So what does that mean? Well, one thing guaranteed in life, you age. And as you age, you take a lot more prescription drugs. That's right, more Viagra and Cialis coming down the pike. By the way, those go generic in the next couple years.

All right, so the aging US population will help fuel prescription expenditures. The industry's going to grow at a six percent or better CAGR over the next, call it 10 years plus. So when you think about that six percent, there's really three buckets that are going to lead to that six percent growth. You've got new drug therapies, existing drug growth, volume growth, and then brand drug price inflation. So, new drug therapies. So, specialty growth. So think, such as Gilead's Sovaldi, which cures Hepatitis C. Drugs that are new, novel, that actually save the healthcare system material amounts of money in downstream costs. So it's a big driver you can see here, 14 percent growth rate. Very high.

Then you've got existing volume growth drivers. So we talked about aging population before. You've got population growth, and then increased utilization from more insured lives as well as rising prevalence of chronic conditions like diabetes.

And then you've got brand drug price inflation. So even though you've got list prices here that, all this gets in the news, right? And this is the stuff that Hillary and Trump want to talk about, this massive price increase of 12.4 percent, in 2015, and 14.3 percent in 2014, but the reality is, after discounts that PBMs help negotiate, the true growth is really low to mid single digits, 2.8 percent in '15, 5.1 percent in '14.

So what is the best risk-adjusted way to invest behind this trend? In my opinion, it's the pharmaceutical supply chain, which is large-scale, wholesale distributors and retail mail pharmacies. As you can see here, there's basically no way that a drug gets from the manufacturer down to the consumer without going through these large-scale wholesalers.

So this is my case for the pharmaceutical supply chain. Just look at this. It's a beautiful, beautiful picture. You're going to see more of these cars, essentially drugs, go through the coffers of the distributors and retail, mail pharmacies, and they're going to charge more for their services as time goes on.

So, this year, this industry has massively underperformed the market, as I showed in a previous slide, on average down over 11 percent. And I've been buying more. So it's not a surprise that this group is underperforming in an election year. This has happened in the last three election cycles, and now it's four. So why is that the case? Well, easy political targets. So you have bad actors-- in this particular time you've got bad actors from the likes of Mike Pearson at Valeant, Martin Shkreli raising drug prices and being the evil villains. And they're easy to attack. And these companies are caught in the middle of this rhetoric. But as you can see here, post-election, these companies tend to do much, much better.

All right, so the pharma supply chain trades at a meaningful discount to the market, yet is expected to grow faster. In particular, the three largest distributors trade at a 20 percent discount to the S&P 500 based on consensus estimates. So, like I said, you get more growth for a lower price, lower valuation.

And in fact, these companies now trade at the largest discount to the S&P since 2009. Now, I don't know about you, but how many people would like to have a do-over from 2009? There's a lot of investments I missed back then. Well, in a way, you get that opportunity with these companies.

Now, why is this such a great industry? Well, for one, they're recession-resistant, and as we know, the market pays a premium for recession-resistant businesses. You can see here in '09, consumer-related sales down, call it 12, 13 percent. These companies grew right through the recession. In fact, the last 10 years, they never had a down year. Consumer staples actually had one down year in 2012.

Distributors, they operate within a healthy, growing industry, going back to my philosophy. This is a very important part, as you can see here. This is the estimated growth for GDP, which I highly doubt will actually happen. Estimated to be five percent, I doubt. Probably lower single digits. But regardless, these companies are going to grow well above GDP, going back to that six percent growth rate I showed you on a previous slide.

So this industry is highly consolidated. There's nothing like the great economics that can come from a growing industry that's highly consolidated, where guys are acting rationally and pricing rationally. So these top three players represent over 90 percent of the industry. And it's not just them that are within the pharma industry that's consolidating. You can see here, top three PBMs have 75 percent share, retail pharmacies 50 percent, so on. So the industry is very rational in terms of how each act with one another.

So within distribution, here are all the contracts that have come up for renewal over the past 10 years, the major contracts. And what's highlighted in red here are the number of contracts that have actually changed hands. There's only a handful that have actually changed hands. And what’s interesting to note, two of these five changes only came about because there were some major joint ventures formed between the largest retail pharmacy chains and the largest distributors. So these guys do not beat each other up on price.

Now, these three distributors, they generate very consistent operational performance. You can see the margins are very consistent regardless of what economic environment we're in. It's helped by growing prescription drug volume, as well as pricing increasing over time. Now, a lot of people might look and say, jeez, this is a low margin business. Isn't really attractive. But what's important to note is that the accounting for the way these guys account for their business on the brand side kind of distorts the margins. The denominator is these high brand drug prices. But in the majority of the brand business, it's a fee for service. Over 80 percent of the business is fee for service, no-risk business. So it's a little distorted. What matters most is that you've got a very high return on capital. Mid-teens, unlevered, return on capital for these three guys, consistent over time.

So how do these guys make their money? Well, so even though 60 percent of the business comes from the brand side in terms of revenue, a much higher piece on the gross profit side comes from generics. And that's a function of a couple pieces. Number one, we have a very, very efficient generic utilization program in this country. Almost we're approaching 90 percent of volume being in generics. Number two, when a drug goes from a brand to a generic, everybody in the supply chain, including the distributor makes, which here you can see, it's about 20 percent higher gross profit dollar per prescription. Everybody makes more money, and the payer and consumer saves. The only loser is the brand manufacturer. He goes away, and the generic manufacturer, they make a little bit.

Now, these distributors, they're forming these major joint ventures. So, as you can see here, Walgreens joined with AmerisourceBergen. Now makes up 30 percent of AmeriSource's revenue. Contract runs through 2026. CVS with Cardinal Health, contract runs through 2023. And then Wal-Mart, a couple weeks ago, announced their joint venture with McKesson for generic sourcing. So these joint ventures, these guys are going to beat up on the commoditized generic manufacturer and get better pricing.

Over the past number of years, we've experienced what's called the generic wave. As you can see here, it peaked out in 2012, and again, going back to the previous charts, you can see how important it is when the drugs go from brand to generic, how much more money the distributors can make. Going forward, we'll still have a nice boom to the business, but it won't quite be the same. So really, more of the growth going forward is going to come from prescription volume growth as well as specialty growth.

Now, lastly, these guys have a major opportunity to do what they did in the US to Europe. So, as you can see here, over 90 percent of the market is consolidated between these three guys. In Europe, the top three players have only 41 percent. Very fragmented. But what's interesting to note is that two of these three players are owned by some of the biggest distributors/retail pharmacies. So, for example, McKesson owns Celesio, which is 12 percent of the European market, and AllianceBoots, which is 16 percent of the European market, is owned by Walgreens. And I wouldn't be surprised down the road to see Cardinal buy Phoenix.

So no discussion regarding anything related to pharma is worth discussing without including an overall discussion about the healthcare market. So, we have a very wasteful system. We spend over 18 percent of our GDP on healthcare. It's not sustainable. One in three dollars is considered waste.

Now, as you can see here, approximately 10 percent of prescription drugs make up national health expenditures. And pharma distribution is a sliver of that spend. As you look, the different buckets where we spend money in the healthcare system, we overpay for everything. But the smallest bucket being pharma, we overpay the least amount. And the reason for that is because, again, we have a very efficient generic utilization system. So we have phenomenal incentives, again, to convert quickly from brand to generic.

And, let's see here. It's that over time, as more drugs come to market, phenomenal return on investment. So, look at this, right? Five and a half, nine times, nine times ROI. And so you talk about something like Sovaldi, which cures Hepatitis C. The net cost for a cure to a disease is approximately $50-60,000. Well, that person who doesn't receive treatment will end up needing a liver transplant, which will cost hundreds of thousands of dollars. So again, you know, politically it's easy to attack these companies. And again, I'm not even investing in-- we're not talking about manufacturing here, we're talking about distribution of drugs, getting them from point A to point B. But the bottom line is, pharma saves the system a tremendous amount of money related to downstream costs.

So I want to go back to that chart where I showed you those eight companies in those secularly growing industries versus declining ones. And what's interesting to note, if you were listening to Steve or Bob talk 10 years ago, they would've told you about the pending housing bubble. And if you bought, say, Home Depot 10 years ago, Q1 of '06, you would've had a horrible investment for two years. Down 40 percent. You'd look pretty stupid if you bought Home Depot 10 years ago. And you would've underperformed the market for six years. It wasn't until year seven where you started to have material outperformance. And now, even if you bought Home Depot seemingly at the worst possible time, number one player, secularly growing business. And still, as we talked earlier today, the number of housing starts is still below normal. But look at the returns. If you invested $10,000 10 years ago in Home Depot, you'd have 40 grand today. S&P, call it 20,000, less than 20,000. So again, what's most important, invest in strong players with sustainable, competitive advantages, healthy, secularly growing industries, at attractive valuations gives you good odds of above-average returns over time. So I care about this, 10 years, what's going to happen to my money in 10 years. So year to date, these four companies have been poor performers, but let's see what happens over the next 10 years. Thank you. Open up for Q&A.

[APPLAUSE]

Q1: Why is the cash limit of 20 percent?

Greg: Sure. So, the goal of this is to find very high quality companies at attractive prices that are going to compound at above-average rates for long periods of time. So, my view is that I have a universe of 3,000 to choose from. I can build a portfolio of, call it 20 to 40 companies. You know, really high quality business in good industries at good prices. And then over time, you're going to compound at a very, very high rate.

Q2: I had a couple of quick questions. First off, what's the one or two most

Q = Question

important things that you learned over your time with Steve and Brian and Mark, maybe that were ingrained, something that you didn't do before that you do on a consistent basis now? And the other one is, you had a slide on the pharma companies and exposure to Walgreens, CVS, so forth, and some of the contracts there. Just drawing on some of the things that we talked about earlier, and you know, those long term contracts that rolled off, you know, one-time payments you got to take for off-shore and on-shore drilling, are there any parallels there? Or I guess maybe just I'm not quite as familiar with some of the ways that those contracts work. Thank you.

Greg: So in terms of what I learned from Steve, so like I said, first and foremost, avoid permanent capital impairments. I think that's the most important thing, because just the math is so undeniable, right? You lose 10 percent of something that's permanently impaired, you've got to make 11 percent to get back even. Down 20, you've got to go up 25. 33 down, up 50. So you cannot lose money. Number two, I'd say tailwinds. You know when I first joined, started in this business, starting out in this business, I just wanted to buy cheap. Cheap, cheap, cheap. Get companies at low multiples. But you soon appreciate, just you end up finding a lot of what I would call value traps. Companies, mediocre businesses, hard to have a clear view in terms of what they're going to look like in the future. So as a result, you end up owning not the highest quality type companies. So I'm greedy in the sense that I want high quality, but I also don't want to pay up for them. And that's what I've really learned from these guys, and how to dig in and find the great businesses at good prices.

In terms of the contracts, so if you look at the major contracts that, say, Walgreens has with Amerisource, or CVS has with Cardinal, so they're long-term contracts, call them 10-12 year contracts. And as a result, now CVS and Walgreens make up, call it 27-30 percent of the distributors' business. The reality is, so in the case of Cardinal, it's a purely sourcing contract. So what that means is, they formed a joint venture called Red Oak. And Red Oak has people from both companies that they contributed to this joint venture. Red Oak negotiates drug prices with the manufacturers. So, bottom line, Cardinal cannot get, nor CVS can get as good of a price on their own as they could together, as one entity, sourcing for both companies. And the same thing for Walgreens and Amerisource. So there would be huge disynergies, say at the end of the contract, for them to disband. Now, the question is, at the end of the contract, right, if Walgreens and/or CVS grow their business at a disproportionate rate, chances are that CVS and Walgreens will end up taking a little bit more of the economics for the next 10 years. But bottom line, they both need each other, because they're both better off being together in their joint ventures. And the same thing goes for Wal-Mart now with McKesson.

Q3: One of your slides indicated that you can have up to 20 percent of the fund in foreign stocks.

Greg: That's right.

Q3: And in general, it seems valuations overseas are more attractive than in the US right now. Do you see a lot of opportunity there, and what percentage of the fund is currently in foreign stocks?

Greg: Sure. So I am finding value in both US and non-US domiciled companies. Today, the fund has, I think as of Q1, I want to say it was seven percent in non-US companies. But what's important to note is that the domicile doesn't tell you the whole story, right? And that, and Steve had a slide earlier, I don't have one that breaks down, but if you look at the revenue generation of my companies, there's significant international presence. A lot of these companies are large cap. The weighted average market cap of these companies are just under 50 billion. So again, I think it's more important, as opposed to the domicile, where are they generating their profits? Okay.

Q4: Yes. So you showed kind of your sector allocations, it was currently unconstrained from a sector perspective, being, you know, heavy in consumer discretionary and healthcare. But since it's a concentrated

Q = Question

portfolio, can you give us your thoughts on how you try to diversify either at the industry level, or are you looking at just individual holdings?

Greg: Sure. In a perfect world, right, there would be broad-based cheapness across the board. And you'd have a less-concentrated portfolio. But the reality is, I go wherever the value is. So in the case of the distributors, which are, you know, among my largest positions, I'm happy to concentrate where there is value and where there are high quality businesses in secularly growing industries at cheap prices. So that's the nature of it. And, like, if you look at the position range, it would be 20 to 40 companies. And at time of purchase, no more than five percent position, but it can grow to be much larger, provided there is obviously price appreciation. So that's how I think about diversification. So currently there's about 25 names in the portfolio.

Q5: What’s the most humbling experience you've had, and what was the most important lesson you took away from it?

Greg: Sure. I would say I recommended Tesco to the Contrarian Value team back in 2011, I want to say. And so that was an example of, at the time, you look at the business. Number one player. Management change. So you think, now we've got a much more returns-focused management team. The problem was, it was in a secularly declining industry. Meaning, you look at the way the industry was changing, it was a couple things.

Number one, you had an industry that basically wasn't growing, yet the top, call it three or four players were continuing to add square footage well in excess of the growth of demand. So, right, econ 101, if supply grows faster than demand, you tend to have pretty bad results, pricing declines, et cetera. Number two, you had the discounters, Aldi and Lidl, which had a better mousetrap. It's kind of like the Trader Joe's model here, so a lot of private label, lower SKU count. It's easier to manage, lower prices, providing better value to customers, and they were taking increasing share. So, basically a failure-- that's again, it goes back to that point, that slide I showed, you know, Staples, and Office Depot, and Best Buy and Circuit City.

You know, if I showed you Staples from the mid-'90s to the mid-2000s, it looked like a great industry. You'd say, great, I get to buy the number one player in a growing industry. But guess what? The industry changed. There was the digitization of everything. You know, the likes of iPads, and demand for office supplies, you know, paper, pens, toner, you know, just fundamentally is declining. So you have to recognize, right, when an industry structurally changes. And I failed to see that. Luckily, we lost a little bit, and I remember telling them we've got to sell this investment, it's just a disaster. And luckily we got out with not that much of a loss, and it's continued to get even worse.

Q6: Is there going to be an overlap between your fund and Crescent?

Greg: There could be. It really, sort of all our strategies are run separately, so each portfolio manager has his or her own discretion to decide what investments he or she wants to make in the portfolio. But you can see there's some overlap. You know, today, I think I have one common holding with, for example, the Capital fund. We both own a small position in Houghton-Mifflin. So you would expect, you know, we're all cut from a similar cloth in terms of how we think about value. And it's just a matter of that interpretation. But I expect over time, you would see some overlap. Just depends. Thank you very much.