Introduction

Following the launch of the FPA International Value Fund in December 2011, we want to initiate communication with our fellow shareholders in the form of this policy statement. Future quarterly letters will give us many opportunities to comment on specific investments. At this stage, we would like to introduce ourselves and convey our vision for the FPA's International Value Strategy that includes the Fund. This letter summarizes who we are and how we think as investors, as well as how we construct and manage the portfolios.

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We are long-term value investors primarily focused on international equities, having helped build a strong track record with a well-known advisory team. We spent most of the last ten years scouring markets overseas to find investment opportunities across a wide range of sectors, researching and analyzing hundreds of businesses, and building local intelligence networks in the process. We maintain a concentrated, disciplined approach to long-term value investing whereby we focus on our best ideas while attempting to weed out higher risk, lower quality, and more expensive businesses.

Investment Objective

Our goal is to deliver above-average capital appreciation over the long-term while attempting to minimize the risk of a permanent impairment of capital.

Investment Philosophy

Absolute Value Investors:

We are absolute value investors. That is to say, we seek genuine bargains rather than relatively attractive ones. Unlike many long-only investment managers, our starting point is not a fully-invested portfolio. We are only interested in making an investment when we are exposed to an asymmetric outcome. We will only convert cash into a partial ownership of a business if we are convinced we are buying a stake at a significant discount to its intrinsic value, and when we believe the risk of potential losses is limited.

Over the years, we have identified hundreds of businesses throughout the world that we would like to own, but they often trade at prices that are too high for us to become shareholders. We consistently monitor these companies while patiently awaiting a cheaper share price. Under normal circumstances, we would expect to have no more than 15% of the Fund's assets invested in cash, but we may at times hold significantly more if we cannot find enough opportunities.

Long-term Focus:

With capital markets generally short-term minded and susceptible to herd-like behavior, we find that our investment goals are best achieved by taking a long-term and often contrarian approach. We consider ourselves owners of businesses. A successful business owner would not care about what happens in the coming quarter, and neither do we. While in principle we would be happy to be invested in perpetuity under the right conditions, in practice we find that five years is a reasonable timeframe.

Selection Criteria

We insist that our investments meet the following criteria:

- **High Quality** – businesses that have sustainable, superior fundamentals. These include high barriers to entry, low threat of product or service substitution, unique competitive advantages, power over customers as well as suppliers, and ultimately, pricing power. We believe that such businesses can generate industry leading margins, realize high levels of free cash flows, and earn attractive returns on capital.
- **Financial Stability** – companies that have conservative balance sheets and good free cash flow profiles. Our view is that financial robustness enhances a business' ability to weather temporary disruptions or adverse economic circumstances, and puts it in a position to consistently gain strength through difficult times. Value destruction, on the other hand, is often the result of excessive leverage, particularly when combined with unforeseen events.
- **Strong Management** – shareholder-aligned management teams that we believe not only run operations well, but also allocate capital in a way that creates value over time. Frequently and preferably these managers are shareholders themselves who think and act as owners. We would expect them to appropriately allocate capital by comparing the relative returns of various investment opportunities and, in the absence of attractive options, consider returning capital to shareholders through dividends and/or share repurchases.
- **Low Absolute Valuations** – an opportunity to invest with a significant margin of safety. This is how we expect to achieve excess returns in the long run. We recognize that we cannot always be right in our assessment of value and demand at least a 30% discount to our estimate of intrinsic value before investing. Buying into quality businesses that build value over time, coupled with a high margin of safety, helps mitigate the potential negative impact of unforeseen factors and allows the passage of time to work in our favor.

Portfolio Construction

Given our stringent criteria, we need to look broadly across capitalizations, industries, and geographies to find good opportunities. While there are over 20,000 listed corporations located outside of the U.S., only a few combine all of our investment requirements at a given time, which leads us to run a more concentrated portfolio. Concentration allows us, in turn, to spend a disproportionate amount of time getting to know the most attractive companies, helping to reduce the risk of mistake which might otherwise lead to capital loss. We focus only on our best ideas and expect to be invested in no more than 25 to 35 stocks.

Investment Process

In analyzing companies, we take a bottom-up, research-driven approach. We eschew businesses that do not lend themselves to appraisal. We limit ourselves to countries with established rules of law and political systems that allow for transparent and unbiased enforcement of those laws. We are also cognizant of macro-economic factors but center our analyses around, and select stocks based on the fundamentals of the underlying businesses. To understand these fundamentals, we engage in extensive research.

We dedicate a lot of time traveling to visit investment prospects and meet with management teams or key employees to discuss operations, strategy, and capital allocation. We interview competitors, suppliers, customers, and other relevant third parties. We study how industries and companies evolve over time and how adept management is at responding to and taking advantage of changes in the business. We think prospectively rather than looking only at the past to anticipate potential changes. Our research is an on-going process, and ultimately the companies we invest in are the ones we have followed for years, and have seen perform through good and bad times.

We also study a long history of annual reports, investor presentations, conference call transcripts, third-party research and other relevant publicly available materials for each targeted company, as well as the other industry participants. Through this process, we seek to obtain an understanding of the value chain, market forces, and strategic dynamics. We use our research findings and analytical work to assess the normal economics of the business, and to estimate the present value of its future stream of cash flows.

We study the company's financial position and how its balance sheet would hold up in challenging conditions. We look at leverage, debt structure, and free cash flow generation profile. We spend a lot of time asking ourselves what could go wrong and, if something did, what it might mean for the business and its value. To the extent possible, we make an assessment of that through our research. We then price the stock with those concerns in mind, rather than making arbitrary allocations between alternative scenarios. If we cannot price-in those scenarios, we do not invest.

Portfolio construction is the product of that research and valuation process. We only add the companies that meet our qualitative investment criteria and offer enough margin of safety to the list of portfolio investments. We then allocate individual portfolio weightings according to the relative discount to our estimate of intrinsic value. This approach allows our ideas with the greatest upside to have a more significant impact on performance.

We continuously monitor each portfolio company to ensure that the original thesis remains intact and that the intrinsic value advantage remains. We may sell a holding when its market price appreciates and approaches our estimate of value; when we find opportunities to reallocate capital to other investments with greater reward potential; or when the original investment thesis no longer holds. While a painful decision, it is preferable in our view to take our losses early rather than simply hoping for a better outcome and increasing exposure as value deteriorates, thus further expanding the possibility of even greater capital impairment.

Conclusion

In conclusion, our approach is to concentrate on a few well thought-out and researched positions. We want to be long-term owners of high quality, financially sound businesses that are run by proven managers who build value over time for shareholders. We invest in these businesses only when we can buy their stocks at what we believe to be absolutely low prices.

We adopted this approach because that is the only one that makes sense to us and because that is how we want to manage our own money. We invested a significant portion of our net worth in the International Value Fund. Should our portfolio lag, we will feel the pain along with our shareholders. At times we expect to experience poor relative performance in the short-run, but are confident that as patient, long-term investors we should be rewarded.

We thank you in advance for your trust and look forward to future communication.

December 11, 2011

Pierre Py
Chief Investment Officer – International Equities
PM of the International Value Fund

Important Disclosures

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.

The views expressed herein and any forward-looking statements are as of the date of the publication and are those of the portfolio management team. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

Portfolio composition will change due to ongoing management of the Fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio managers, or the Distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpafunds.com.

Investments in mutual funds carry risks and investors may lose principal value. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks. Foreign investments, especially those of companies in emerging markets, can be riskier, less liquid, harder to value, and more volatile than investments in the United States. Adverse political and economic developments or changes in the value of foreign currency can make it more difficult for the Fund to value the securities. Differences in tax and accounting standards, difficulties in obtaining information about foreign companies, restrictions on receiving investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations, can all add to the risk and volatility of foreign investments.

Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds. A non-diversified fund may hold fewer securities than a diversified fund because it is permitted to invest a greater percentage of its assets in a smaller number of securities. Holding fewer securities increases the risk that the value of the fund could go down because of the poor performance of a single investment.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values.

Definitions

Margin of safety - Buying with a “margin of safety” is when a security is purchased at a discount to the portfolio manager’s estimate of its intrinsic value. Buying a security with a margin of safety is designed to protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

The FPA Funds are distributed by UMB Distribution Services, LLC, 235 W Galena Avenue, Milwaukee, WI 53212.