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FPA Short Duration Government ETF (FPAS) Introductory Webcast
December 18, 2024

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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This transcript must be preceded or accompanied by a prospectus for the Funds. The Prospectus for FPAS dated October 31, 2024 can be accessed at: https://fpas.fpa.com/assets/pdfs/FPAS_Prospectus.pdf. The prospectus for FPNIX dated April 30, 2024 and the prospectus for FPFIX dated April 30, 2024 can be accessed at: https://fpa.com/request-funds-literature. The most current prospectus' can always be obtained by visiting the website at fpas.fpa.com or fpa.com, by calling toll-free, 1-800-982-4372, or by contacting each Fund in writing.

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Moderator: [Please see slide 1] Hello and welcome to today's webcast. 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 full-screen 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 Kristina Surkova. Kristina, the floor is yours.

Kristina: Good afternoon and thank you for joining us today. We would like to welcome you to the introductory webcast for the FPA Short Duration Government ETF [”the Fund” or “FPAS”].

[Please see slide 2] Portfolio manager Abhi Patwardhan and Ryan Leggio, who is a partner and also leads client relations and strategy development at FPA, will discuss the Fund's goals and investment process, and then take pre-submitted and live questions. My name is Kristina Surkova and I am relationship manager for the Fund. The audio, transcript, and visual replay of today's webcast will be made available on our website FPA.com.

Abhi Patwardhan is a partner at FPA and has been with the firm since 2010. He has been a portfolio manager for the FPA Short Duration

Government ETF since its inception in October of this year. Now over to you, Ryan.

(00:01:58)

Ryan: [Please see slide 3] Thanks, Kristina, and thanks, everyone, for joining us for our last webcast before the end of the year and, as Kristina mentioned, our introductory launch webcast for our new [short duration government] bond ETF.

Our agenda today is pretty straightforward. We want to spend time on the feedback from clients, and work that has gone on over the past year-plus that ultimately led us to launch a bond ETF. Abhi is then going to go into detail into the Fund's process, and we will then take some pre-submitted questions and live questions.

So the big topic is: why do our clients keep asking us about ETFs? ETFs are not new for FPA. In December 2021, three years ago this month, we launched the FPA Global Equity ETF [("FPAG")], which is comprised of the larger-capitalization, mostly liquid equities found in the FPA Crescent Mutual Fund.[1] We learned a lot during the process leading up to that launch. We had to design a strategy that took into account two

[1] FPAG is managed in a fashion consistent with the principles of the FPA Contrarian Value ("CV") Strategy, of which FPA Crescent Fund is a part of. FPAG's holdings are generally a subset of equities used in the CV Strategy.

of the major features of most actively managed ETFs, and those are high capacity and daily transparency. You'll hear Abhi and I keep touching on those two key concepts—high capacity and daily transparency—a lot during this webcast.

Specifically, related to equity-oriented ETFs, what appealed to many of our clients, and I'd say the industry at large, was the potential ability to defer capital gain distributions that are, candidly, much easier to do in an ETF structure than to do in a traditional open-end structure. That potential deferral of capital gains is one of the main advantages of equity ETFs over equity mutual funds.

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Now, the ability to defer capital gains is not a big reason active bond ETFs have taken off over the last few years because, of course, most of the returns of traditional fixed income strategies come from income rather than capital gains. And ETFs don't have any advantages compared to open-end mutual funds when it comes to income distributions. But ETFs do have other advantages over traditional open-end mutual funds, and some of these are listed on the slide. These can include, depending upon the platform: administrative and/or operational ease; trading costs for ETFs on some platforms can be cheaper, or in

some cases much cheaper, than for mutual funds no matter what the share class; and some clients have started to build out ETF-only portfolios. In any event, it became clear—at least to me—that the usage of fixed income ETFs by our clients will likely increase over the coming decade.

[Please see slide 4] Prior to the ETF launch a few weeks ago, we had two fixed income options for investors: FPA New Income and FPA Flexible Fixed Income. Since our strategies look nothing like an index, the choice investors make between the two really comes down to time horizon, risk tolerance, and/or investment return goals. The longer the time horizon, greater the risk tolerance—think maximum drawdown—and greater the investment return goals, the more suitable FPA Flexible Fixed Income is. And the shorter the time horizon, lower the risk tolerance for maximum drawdowns, and lower the investment return goals, the more suitable FPA New Income is. And hopefully that's clear by this 5-year risk/return chart.[2]

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[2] There can be no assurance the Funds' will succeed in achieving their respective investment objectives or goals. **Past performance is no guarantee, nor is it indicative, of future results.**

Now, looking at that, we had some white space for an investment solution that had lower risk than New Income, and something that had higher potential risk than Flexible Fixed Income. Abhi will go into why it seemed obvious to us that the lower-risk option made much more sense for an ETF since, as I previously mentioned, a strategy within an ETF needs to have high capacity and daily transparency.

The last thing I'll say before I turn it over to Abhi is, in addition, with our ETFs along with all of the other strategies we manage, we knew that we needed to have fees that aligned with the strategy, and we appreciate the feedback we got from clients, and you'll notice on the next slide the long-term fee waiver on the strategy, which is similar to a long-term fee waiver we did for our equity ETF.

The last thing I want to mention is a big thanks to all of our clients for their feedback and collaboration over the last few months and quarters, because we couldn't have done this without them. Abhi, with that, over to you.

Abhijeet: [Please see slide 5] Thank you, Ryan. Let's begin with some history because it will inform how we got to the ETF we're discussing today.

FPA has managed the FPA New Income for over 40 years, and we have done that in a differentiated way using an absolute value approach to

bond investing. Absolute value means we buy bonds based on whether we believe the expected absolute return compensates us for the risks involved, which include credit risk and duration risk. Importantly, FPA New Income does not track an index. As a result, when combined with our active management, over the years, FPA New Income has had meaningfully different sector exposures, credit exposure and, notably, a different duration in comparison to potentially comparable funds or indices.

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Having said that, New Income is an investment grade-oriented fund and, for several years leading up to 2018, we have been asked by investors to launch a more flexible and perhaps more credit-oriented version of New Income. The challenge we had in fulfilling that request is that we only want to launch new strategies if we think there is demand and, more importantly, if we think that we can actually add value.

Never one to be an early adopter, after much thought, several years of thought, FPA Flexible Fixed Income was launched in December 2018. It uses the same investment approach as FPA New Income but has the capacity to take on more credit exposure if and when [we believe] it makes sense to do so as determined by market prices.

More recently, over the past couple of years, many investors have asked us if we would launch an ETF. We had many requests specifically for an ETF version of FPA New Income or even a New Income-lite. We struggled with these requests for several reasons.

One, we believe that part of our special sauce is being capacity-conscious. We place a high value on capacity. Our number one objective is to [seek to] generate great risk-adjusted returns for our investors. We don’t think having unlimited capacity is conducive to that objective, which is why we have tried really hard to be conscious of capacity and which is why we proactively soft-closed FPA New Income from 2020 to 2022 when its size had outgrown its opportunity set. However, there is no effective way to control an ETF’s capacity, so that gave us pause.

Second, we struggled with the transparency required of a successful ETF. To the extent that we ever come up with a good idea, which isn't often, but if we do, we don’t believe that it’s supportive of returns to broadcast that idea before we have had a chance to build our position. But the daily transparency required of an ETF, if you want the ETF to be successful, would amount to such a broadcast, so that also gave us pause.

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The lightbulb moment came when one of our FPA New Income investors suggested that we don't need to replicate New Income in an ETF, we just need to create an ETF that delivers a lot of what has driven New Income's returns over the years. That gave us something to work with. Once we went back to the drawing board, it occurred to us that a) duration management has been a meaningful driver of New Income's return over the years,[3] b) we have always been transparent about how we manage duration so we're not giving up anything to share that every day; and c) we can solve for the capacity issue by limiting our investments to the largest, deepest, most liquid bond market in the world, the US Treasury market. In other words, with Treasuries, we could manage billions and billions of dollars in an ETF and not worry about the impact of the ETF's size on the ETF's return, and not worry about the impact of the ETF's size on FPA New Income's or FPA Flexible Fixed Income's returns.

So finally, after a couple of years of contemplation, we are here today to [discuss the] launch the FPA Short Duration Government ETF shown here on the left. Much like our other strategies, the FPA Short Duration Government ETF [("Fund" or "FPAS")] uses an absolute value

[3] Note: **Past results are no guarantee, nor are they indicative, of future results**.

approach to bond investing coupled with index independence to actively manage its exposure to risk, specifically duration risk. We think our active duration management makes this Fund unique in its short-term—sorry, makes it unique in its short duration government bond category, and will allow us to potentially add value over time.

[Please see slide 6] It may be helpful to take a moment to quickly explain our absolute value investment philosophy. When bonds get cheaper, we want to buy more of those cheaper bonds because we believe that the cheaper price makes bonds less risky and improves the risk versus reward. When bonds get expensive, we want less exposure to those expensive bonds because higher prices and lower yields make the risk versus reward worse.

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This thought process applies to duration too. When yields are higher, that means that compensation for duration has increased, i.e. duration is cheaper, so we want to own more duration, which means buying longer-duration bonds. When yields are low, that means that compensation for duration is low, i.e. duration is expensive, so we want to own less duration, which means owning shorter-duration bonds.

For decades, we have been using our 100 basis point duration stress test to guide us through the process of identifying cheap and expensive duration. We first used this test with New Income for many years, and then with Flexible Fixed Income, and now we are using the same test with the FPA Short Duration Government ETF.

Investors in New Income and Flexible Fixed Income have no doubt heard of our 100 basis point stress test before. It would be hard not to since we talk about it all the time. But just to make sure everyone is on the same page, let's walk through the test and how it works.

Our 100 basis point duration stress test seeks to identify the longest duration bonds that we believe will produce a breakeven return over the next 12 months if we assume that the bond's risk-free rate increases by 100 basis points over those 12 months.

This chart is from December 2021. The dark blue bars on this chart show the Treasury yield curve for different maturities of Treasury bonds as of December 2021. As an example of how our stress test works, let's look at the 2-year Treasury toward the left side of this chart. If we bought the 2-year Treasury at a 0.73% yield and then its yield increased by 100 basis points over 12 months, from 0.73% to 1.73%, we would expect a negative total return over those 12 months of minus 0.26%, which is shown by the

green bar. Because that 12-month total return is negative, that 2-year maturity Treasury, with a 2-year duration back then, would generally not have been a candidate for our portfolios.[4]

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One step to the left, we see that a 1-year Treasury bond would produce an expected return of 0.38% back then if held for a year even if rates rise, because that 1-year bond would end up maturing by the end of the 12-month test period.

Because we look for the longest bond that would get to an expected breakeven return, at the end of 2021, we would have looked for bonds with a duration between 1 and 2 years because that's where the green bars would break even. It's no coincidence then that FPA's mutual fund, the FPA New Income Fund, which uses the same duration management process, had a 1.4-year duration at the end of 2021; and our other mutual fund, FPA Flexible Fixed Income, had a 1-year duration at

[4] The 100bps Stress Test, or downside, hypothetical return estimates the 12-month total return assuming yields increase by 100 bps over 12 months. Upside return estimates the 12-month total return assuming yields decline by 100 bps over 12 months. Return estimates assume gradual change in yield over 12 months and are shown gross of fees and expenses, which if included would reduce the returns presented. Analysis assumes bonds are initially priced at par. **The hypothetical stress test data provided herein is for illustrative and informational purposes only and is intended to demonstrate the mathematical impact of a hypothetical change in Treasury yields on Treasury returns.** No representation is being made that any account, product or strategy will or is likely to achieve profits, losses, or results similar to those shown. Hypothetical results do not reflect trading in actual accounts, and does not reflect the impact that economic, market or other factors may have on the management of the account. Hypothetical results have certain inherent limitations. There are frequently sharp differences between simulated results and the actual results subsequently achieved by any particular account, product or strategy.

the end of 2021. Our fund's short duration ended up [serving] our investors well when interest rates rose subsequently by several hundred basis points in 2022. But to be clear, that's not something that we anticipated. We were merely responding to current market prices in 2021. Yields were very low in 2021. The stress test told us that the low level of yields only afforded us the ability to own a small amount of duration or a short duration. In other words, the return per unit of duration risk was very low and did not warrant owning a lot of duration. Simply put, the market was expensive and the [stress] test made that plain to see.

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[Please see slide 7] By comparison, this next chart applies the same stress test to the Treasury yield curve as of November 2024. Yields are much higher now. We can see on the right that if the yield on the 5-year Treasury increased from a starting point of 4.05%, which is shown in dark blue, to 5.05% over the next 12 months—so a 100 basis point increase in yield—the 5-year Treasury, with its 4½-year duration, would produce an expected positive total return of 0.47% over 12 months. Because it produces an expected positive return, the 5-year Treasury is a candidate for our portfolio these days.

To that point, our FPA New Income and FPA Flexible Fixed Income investors know that we have bought 5-year maturity Treasury bonds and other bonds with a similar maturity profile, and the duration of both of those funds was recently over 3 years because of those investments.[5]

Higher yields afford us the ability to own more duration because the yield per unit of duration risk has gone up quite a bit in the last few years. As value investors, we want to own more of whatever is cheap. In this case, duration is cheaper and the stress test provides that guidance.

[Please see slide 8] With that background of our 100 basis point stress test, we can now discuss the investment process for the ETF. The FPA Short Duration Government strategy will use this same active duration management we just discussed to manage the ETF's duration. Specifically, the ETF's duration will be determined by buying the longest bonds that we expect will produce a breakeven return over 12 months if we assume that risk-free rates increase by 100 basis points over those 12 months. That 100 basis point stress test is the same test we just showed in the previous charts, and it's the same test we've been using to manage

[5] As of September 30, 2024. Portfolio composition will change due to ongoing management of the funds. Any mention of individual securities or sectors is for informational purposes only and should not be construed as a recommendation to purchase or sell such securities, 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 any security or sector examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at fpa.com for FPA New Income Fund and FPA Flexible Fixed Income Fund. Daily holdings for FPAS can be obtained at fpas.fpa.com.

FPA New Income's and FPA Flexible Fixed Income's duration for many years.

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As we'll discuss later, this formulaic approach to duration management could cause the ETF's duration to change as interest rates change. But, as required by the rules of the Morningstar Short Government Bond category, the ETF's duration will stay within a range of approximately 1.5-4.5 years.

We will run this 100 basis point stress test every quarter and will rebalance the ETF's holdings to get the ETF's duration toward the longest duration identified by the 100 basis point stress test as long as doing so would result in the ETF's duration changing by at least a quarter of a year.

For example, if the 100 basis point stress test guided us to buy 4.5-year duration bonds and the ETF had a 4.3-year duration, we would not rebalance the holdings because that's only a 0.2-year difference. But if the ETF had a 4-year duration when the test guides us to 4.5 years—excuse me. If the ETF had a 4-year duration when the test guides us to 4.5 years, we would rebalance because that's more than a 0.25-year difference.

Similarly, if the ETF had a 4.3-year duration when the test guides us to a 3.5-year duration, we would rebalance then as well to lower the

ETF's duration. But importantly, since we're providing the formula and the transparency today, there should be no surprise if and when we rebalance every quarter.

As a short government bond strategy, we expect to have at least 90% of the ETF's assets in Treasuries and agencies. In addition, up to 10% of the assets can be opportunistically invested in other investment grade debt.

Having said that, in recognition of the lack of capacity constraints, we expect that this ETF will only own Treasuries most of the time, and agencies and other investment grade bonds may show up from time to time in some amount, but we're not counting on that. If those other bonds do show up, we would view that as potential additional long-term return but again, we're not counting on it, and that's reflected in the 9 basis point expense ratio.[6]

[6] Portfolio limits are measured at time of purchase. The Fund has adopted a policy to invest, under normal market conditions, at least 80% of its assets in debt securities issued or guaranteed by the U.S. government and its agencies and instrumentalities, and in repurchase agreements in respect of such securities. FPAS may also invest up to 10% of its total assets in other investment grade debt instruments, shares of exchange-traded funds ("ETFs") and other mutual funds (including money market fund shares), reverse repurchase agreements, cash and cash equivalent securities. Investment grade debt instruments are those rated in BBB- or higher categories by Standard & Poor's ("S&P") or the equivalent rating by any other nationally recognized statistical rating organization ("NRSRO"), or, if unrated, determined by the Adviser to be of comparable credit quality. The Fund's investment adviser has contractually agreed to limit Total Annual Fund Operating Expenses (excluding any leverage expense, brokerage fees and commissions, acquired fund fees and expenses, borrowing costs (such as interest and dividend expense on securities sold short), taxes, and extraordinary expenses, such as litigation expenses), to 0.09% of the Fund's average daily net assets through October 31, 2027. The Fund's investment adviser may recoup any operating expenses in excess of these limits from the Fund within three years if such recoupment can be achieved within the lesser of the foregoing expense limits and the expense limits in place at the time of recoupment. This agreement may only be terminated before its expiration date by the Board of Trustees of Investment Managers Series Trust III.

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The reason that we think that this ETF is interesting is pretty simple. [We believe] not a lot of people are thinking about duration risk on an absolute value basis like we are, and so this ETF is a good way for us to offer active duration management.

[Please see slide 9] As an example, this chart shows the yield on the 2-year Treasury versus the duration of the Bloomberg 1-5 Year US Treasury Index. Over the last 6 years, [2-Year] Treasury yields have gone from 3% to almost zero, up to 5%, and are back to approximately 3.6% as of September 2024. Throughout that time, the duration of this index hasn't really changed. It's been at approximately 2.7 to 2.8 years the entire time.

Now, people may not think it's risky to own an index like this because this is—because this index essentially always has the same duration. If you define risk as tracking error or you define risk as deviating from a benchmark then yes, owning an index like this may not be risky. On the other hand, if you define risk as the ability to make and lose money like we do, then the duration of an index like this may not change but the risk can change dramatically.

We think risk should be measured relative to price. It's risk versus reward. As yields decrease, the return per unit of duration goes down, so

the risk increases, and vice versa. When you own an index like this, yes, the duration does not change much but the investment got much riskier in 2020 as [2-Year Treasury] rates went to near zero and, conversely, the index got a lot less risky after [2-Year Treasury] rates went to 5%. Anyone who owned an index like this from 2020 through 2022 experienced that firsthand when they saw their returns in 2022.[7]

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[Please see slide 10] Similarly, this chart shows the yield on the 2-year Treasury and the duration of the typical fund, [meaning the weighted average of the funds that make up] the Morningstar Short-Term Bond category. Here again, the typical short-term bond fund didn't change its duration much over the last 6 years even though we had one of the biggest swings in interest rates in history.[8] It's actually perplexing to us. Duration was historically expensive when rates were near zero, and the typical short-term bond fund had a 2.4-year duration. And then, duration was the cheapest it had been in a generation, when rates were over 5%, and the typical short-term bond fund had a 2.7-year duration. In other

[7] Returns referenced are for the 1-5 Year Treasury Index. The return for the period 12/31/20 to 12/31/22 was -3.358% and for the period 12/31/21 to 12/31/22 was -5.475%.

[8] Source: Bloomberg. Note, the duration of the Morningstar Short-Term Bond Category ("Category") is the weighted average duration of **all** the funds in the Category. The use of the term 'typical short-term bond fund' is not meant to imply that any individual short-term bond fund in the Category has had historical duration as noted in the chart on Slide 10 or in this transcript.

words, the market got really expensive and the typical fund didn't do much about it, and then the market got really cheap and the typical fund didn't do much about it.

[Please see slide 11] In comparison, this chart shows the 2-year Treasury alongside FPA New Income's duration. We actively managed FPA New Income's duration over the past 6 years using the 100 basis point stress test that we've been discussing today.

When rates were really low, the test led us to a shorter duration. When rates were the highest we've seen in a generation, the test led us to increase the duration. In summary, we increased FPA New Income's duration from just over 1 year near the low in rates to 3.2 years recently, all guided by our 100 basis point duration test.

[Please see slide 12] Going back to our investment process for the ETF, because we are so transparent about our 100 basis point test, anyone can pull up the Treasury yield curve and run the tests themselves to see what duration we would buy. You could do that today. You can even go back in time and run the test at different points in history to see what duration the test would lead us toward.

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To save you the trouble, we've done that math for you and plotted it here against the 2-year Treasury yield. On the left, the stress test applied to the US Treasury yield curve in September 2018 would have led us to buy 3.8-year duration Treasuries. In December 2022—sorry, in December 2020, when 2-year Treasury yields were near zero, the stress test applied to the yield curve would have led us to buy 1.5-year duration Treasuries once we apply the lower limit on short-duration funds discussed earlier. In September 2023, when 2-year Treasury yields were around 5%, the stress test applied to the yield curve would have led us to buy 4.5-year duration Treasuries; and more recently, the stress test applied to the yield curve leads us to buy 4.5-year duration Treasuries after applying the upper limit on short-duration funds [in that category] discussed earlier.

[Please see slide 13] Pulling out those datapoints at the end of each calendar year and comparing them to the 1-5 Year Treasury Index, we can see [based on historical data] that this sort of duration management could create a meaningfully different duration profile [defined as greater than 1 yr] than that [of the] index.

The last row of this table shows the difference in duration between the index and the duration that [the] stress tests would produce. Going back to what we said earlier, that we only want to launch strategies if we

could potentially add value over time, if we had run this analysis and saw that the duration would have been meaningfully different a small fraction of the time then it would have been a lot less clear that we could potentially add value over time, and so perhaps this ETF would not have made sense. However, the bolded numbers in that last row indicate a meaningful difference in duration of at least a year, and we can see that the stress test would [have] produce[d] a meaningfully different duration about 50% of the time, so we think this strategy [could] be compelling over time.[9] (00:26:00)

[Please see slide 14] The FPA Short Duration Government ETF has been live since the end of October. This is a comparison of the ETF to the 1-5 Year Treasury Index as of November 30th, and shows that the ETF has a yield of 4.02% and a duration of 4.3 years versus the index's yield of 4.17% and duration of 2.6 years.[10]

[9] The historical data referenced herein does not represent any investment portfolio, does not reflect valuations or other features of our investment approach, and is not an assurance of future outcomes.

[10] Portfolio composition will change due to ongoing management of the funds. Any mention of individual securities or sectors is for informational purposes only and should not be construed as a recommendation to purchase or sell such securities, and any information provided is not a sufficient basis upon which to make an investment decision. Comparison to an index is for illustrative purposes only. FPAS does not include outperformance of any index in its investment objectives. **Past performance is no guarantee, nor is it indicative, of future results.**

[Please see slide 15] In summary, we believe that this ETF can potentially produce more attractive risk-adjusted returns over time due to our active duration management.

As a potential secondary source of long-term return, we could have bonds other than Treasuries that may opportunistically show up once in a while but again, we're not counting on that for this ETF's success. Ryan?

Ryan: [Please see slide 16] Thanks, Abhi. So in summary, I hope, with all of the comments Abhi just made, that everyone has a really good understanding now of why we designed this strategy the way we did for the ETF structure, and how the strategy is much different than FPA New Income and FPA Flexible Fixed Income.

As Abhi mentioned, this ETF looks very different than the index, especially given where yields are today. And the fact that the Fund at times may look much different, especially, as Abhi mentioned, when rates are very low or when rates are very high, is why we're excited about the Fund's long-term future. Again, as Abhi mentioned, if it looked really similar to a short-term government bond index, say 80%-plus at the time, there would have been no reason for us to launch the ETF.[11]

[11] Comparison to indices and Morningstar categories are for illustrative purposes only. FPAS does not include outperformance of any index, benchmark, or Morningstar category in its investment objectives. An investor cannot invest directly in an index.

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I want to spend a few moments on potential use cases and unlikely use cases. And the first potential use case is, as Abhi alluded to, if you think about risk the way we do—and I see a lot of FPA New Income and FPA Flexible Fixed Income folks on the call—and that is [seeking to reduce] the probability and magnitude that you can lose money and maximizing your potential risk-adjusted returns, there's a strong case to be made to replace a short-term government fund or ETF with our ETF, FPAS.

In terms of complement to a short government bond fund or ETF, you know, for those of you who do care somewhat about tracking error—and think of that as a small risk factor—I think that's really been the case to pair our ETF with your favorite short-term government bond ETF in line with your tracking error tolerance.

The second broad use case would be if you like FPA New Income but need to use an ETF for whatever reason, the ETF may be appropriate for those who are interested in a fund that, as Abhi discussed, has a similar duration management process as FPA New Income but with potentially lower volatility and are comfortable with potentially lower expected returns.

I think the point we want to underline though, which hopefully was made clear and we're happy to talk about it more during the Q&A session, is it's really not intended to be a replacement for FPA New Income because, quite frankly, of the broader tools that FPA New Income has that this ETF will frankly never have.

There were two high-level unlikely use cases in our mind, and Abhi touched on one of them and another one came up during Q&A.

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And the first unlikely use case is if you need something with a near-static duration and you're happy with the way short-term government bond index funds performed in 2022 and during the max drawdowns centered around that time, you should not consider our ETF because FPAS has the potential to have a highly dynamic duration and thus a potentially much different drawdown experience.

We've been asked by clients during this process over the last few years, and also on the webcast today, is this ETF a cash alternative? And the specific question we got live just now is, "Will the ETF be viewed as an ultra-short or cash-plus fund?"

And the answer is no. The ETF should not be considered a cash alternative, it should not be considered an ultra-short fund, and it should

not be considered a cash-plus fund. We specifically designed this strategy around the duration guidelines of the Morningstar Short Government Bond [Category]. You know, Abhi can talk more about this but if we had to consistently limit the Fund's duration to less than 1 year, I think it would be very hard for us to do something that would be dynamic and, frankly, worthwhile if the duration of the Fund always had to be between 0 and 1 year. Happy to talk more about that if there are further questions.

And so when people say cash alternative or cash-plus, we think of the industry standard definition of around 90 to 92 days, or maybe some people thinking, you know, up to a 1-year time horizon which would indicate 1 year or less maturities. But again, to underline the point, the reason why we don't think of our Fund as a cash alternative or cash-plus is since the ETF's duration is going to range approximately between 1.5 and 4.5 years, 1.5 years is clearly longer than 90 or 92 days and even 1 year and so, because of that fact, it's not intended to be a cash alternative.

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Last but certainly not least, as Abhi mentioned, given the predominance of Treasuries in the Fund and the fact we already run the 100 basis point stress test both in the background and publicly during our

webcasts and letters, we don't anticipate any material impact to [our management of] FPA New Income or FPA Flexible Fixed Income Funds.

[Please see slide 17] And with that, that concludes our prepared remarks and I'm going to turn over to Abhi now for some of the pre-submitted questions.

Abhijeet: Thank you, Ryan. So the first question we received is, **"What purpose does this fund serve compared to the New Income Fund? Given that New Income has been a great capital preserver,"**—we agree—**"Will FPAS be even better? Which will have higher long-term returns?"**

So the answer is that this fund has a different purpose than New Income. This fund is trying to beat a short-term government index and similar funds on a total return and risk-adjusted basis over time, whereas New Income is trying to beat primarily investment grade short-term indices and similar funds on a total return and risk-adjusted basis over time.[12]

With respect to capital preservation in the short term, it depends on what's driving the market drawdowns. If risk-free rates are increasing, we would expect New Income to potentially do a better job of preserving

[12] **This comparison is for illustrative purposes only.** It is noted that neither the FPA Short Duration Government Fund, nor the FPA New Income Fund, include outperformance of any index, benchmark or peer group in their investment objectives.

capital than the ETF because it currently has a shorter interest rate duration and more yield, so its [net asset value (NAV) is expected to] go down less, and it has more yield to offset price declines.[13]

If an increase in credit spreads is driving the market, the ETF would probably do a better job of protecting capital since it [will primarily] own Treasuries and cash and [therefore] has no spread exposure. But it depends on the magnitude of the spread increase. It's possible that New Income could do as good a job of preserving capital in that scenario, but it depends on how much spreads increase. We should add though that if that spread increase is one of those credit selloff events that is accompanied by a decrease in risk-free rates, the ETF would [be expected to] do a better job of preserving capital in the short term.

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Over the long term, we would expect New Income to have a higher long-term total return because New Income has the benefit of buying bonds with spread and thus would have more yield than Treasuries.[14]

The next question is, **"Why should someone invest in this ETF? What are the competitive advantages versus similar ETFs?"**

[13] Note, this reflects the yield and duration as of the date of this webcast. We cannot predict what the yields and duration of each fund will be in the future, and thus how they will react to future market drawdowns.

[14] There is no guarantee the investment objectives of each fund will be achieved or that the strategies employed will be successful.

So I think we covered this in the prepared remarks. [We believe] the main competitive advantage of this ETF is the duration management and duration flexibility to look much different than short-term government indices.

When rates are relatively low, meaning yield per unit of duration is low, bonds are skewed toward negative returns. When rates are relatively high, meaning yield per unit of duration is favorable, bonds are skewed toward higher positive returns, like they are today. Our ETF would try to dynamically adjust for change in bond market pricing.

The next question is, **"What are advantages of this fund relative to simply buying T-bills or an ultra-short income fund?"**

So Ryan partially answered this earlier but just to reiterate a few things, buying T-bills and really short Treasuries in general makes sense if you have a defined near-term funding need. If you don't have that need then owning T-bills or really short Treasuries can have a significant opportunity cost because of the reinvestment risk. If rates go down, you will have to reinvest at those lower rates. By extending your maturity to match your time horizon, you are [helping to mitigate] that risk.

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[We would contend that] the only other reason to own T-bills or really short Treasuries is if you are making a market bet, for example, if you have a high conviction that interest rates will go up. We don't know anyone that has that level of conviction, and we certainly don't, but if you do then buying T-bills and the like could make sense.

The [current] advantage of this fund is that you're locking in 4-year yields today, roughly—excuse me—and if rates were to go down significantly, you [expect to get] both capital appreciation and we will move the Fund's duration down so that the risk versus reward stays favorable, unlike an index fund which will [typically] keep [the] duration and risk high even after yields have gone down. Ryan?

Ryan: Thanks, Abhi. There's only one live question that's still on our board. We already answered a few of the live questions during the prepared remarks. So, I just want to pause for 10-15 seconds to make sure there aren't any other live questions and if not, we'll finish with this last live question. So we'll just pause for 10 seconds in case there are any other questions.

Okay. Looks like no other questions, so we'll answer the last question that was submitted, which is, **"Can you provide some guidelines regarding liquidity and volume when buying an ETF?"** And

I appreciate that question. That was actually going to be the last topic I wanted to talk about before we signed off.

So there are two things I would want to mention regarding the topic of trading a newer and smaller ETF. The first is a document that's found on our website. So if you go to the FPA Short Duration Government ETF website, on the right-hand side of that website there is a section called Related Documents and there is a special document we actually prepared for our Equity ETF, which is just as a relevant for this ETF, called "ETF Investing and Best Practices." It's not the lowest link in that box but it's the next-to-lowest link. And there is a ton of great tips on that, and please reach out to your FPA representative if you have any questions about that, or you can reach out directly to me.

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The other is high-level thoughts regarding liquidity of, again, newer or smaller ETFs. There's been a lot written about this in the industry at large, and so if you search online, I'm sure you can find some white papers on this. And I want to provide just three of the big takeaways and then, again, happy to chat more with clients, etc.

And the three big takeaways are as follows. Number one, the liquidity of the underlying holdings for ETFs winds up being just as

important for investors as the liquidity of the ETF itself. And, as Abhi mentioned, the liquidity of the underlying holdings [for the Fund] —in this case, they're Treasuries, which are incredibly [liquid], and [we believe] that's really the thing to focus on.

Number two, [in an analysis performed by Unlimited of 290 equity sector and thematic ETFs, they found that] ETFs that have low daily volume—and ours of course has low volume as our seed investors have just started to invest—but hold highly liquid underlying securities—so again, think of Treasuries in this case—wind up having a similar liquidity profile to high-volume ETFs that hold relatively illiquid securities.[15]

And the third point I'd make is that while most investors think of liquidity in terms of volume, for the ETF space, the volume of the underlying securities are an equally important factor in determining trade costs.[16]

[15] Source: Unlimited, S&P Capital IQ. August 7, 2023. The third party analysis referenced is looking at the average bid-ask spread for 290 equity sector and thematic ETFs sub-sampled* by both the position-weighted liquidity of their underlying assets and the liquidity of the ETF itself. https://go.unlimitedfunds.com/whats-under-the-hood. *https://www.justetf.com/en/etf-lists.html. This is for informational purposes and educational purposes only and should not be construed as investment advice. Nothing herein constitutes an offer to sell or a solicitation of an offer to buy any security. No investment strategy or risk management technique can guarantee return or eliminate risk in any market environment. Liquidity of any instrument is dependent upon market conditions. No representation is being made that liquidity of any investment vehicle, including the Fund, will be available in any market environment. **There is no guarantee the Fund will have a liquidity profile similar to the results of the third-party analysis.**

[16] Source: Source: Unlimited, S&P Capital IQ. August 7, 2023. https://go.unlimitedfunds.com/whats-under-the-hood. This is for informational purposes and educational purposes only and should not be construed as investment advice. Nothing herein constitutes an offer to sell or a solicitation of an offer to buy any security. No investment strategy or risk management technique can guarantee return or eliminate risk in any market environment. Liquidity of any instrument is dependent upon market conditions. No representation is being made that liquidity of any investment vehicle, including the Fund, will be available in any market environment.

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So what all that means is our expectation is that the bid-ask spreads of our ETF, given what we're investing in, will consistently remain tight and that at any given day, even if there isn't any volume, because of the underlying securities of what we're investing in, the ETF can easily handle—Abhi, correct me if I'm wrong—tens or even hundreds of millions of dollars in any single day because as soon as we get that capital, we'll be investing in one of the deepest, most liquid markets in the United States.[17] Is that fair to say, Abhi?

Abhijeet: That's correct.

Ryan: And so I think that's the important thing to think about for the ETF, and you're going to see our holdings, again, daily. But the long story short is I would not worry about trading and liquidity either on the way in or on the way out because again, the underlying securities we're investing in are highly liquid. Happy to talk more to clients about that and share white papers that are broadly available in the industry, but I hope that that aligns with what everyone generally understands in terms of the mechanics with ETFs.

[17] There is no guarantee that the bid-ask spread of the Fund will consistently remain tight. No investment strategy or risk management technique can guarantee return or eliminate risk in any market environment.

Again, no other questions so I'll just mention the ETF is currently available on major platforms like Schwab and Fidelity. If there are other platforms that you invest through that you want the ETF to be made available through, please reach out to either your FPA representative or reach out to us at crm@fpa.com and we're happy to work on getting that ETF available if we can.

And with that, those were all the pre-submitted and live questions. Thanks so much for joining us today.

Kristina: Thank you, Ryan. Thank you for listening to the introductory webcast for the FPA Short Duration Government ETF. We now turn it over to the system moderator for closing comments and disclosures.

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Moderator: [Please see slide 18] 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 fpas.fpa.com.

[Please see slide 19] We urge you to visit the website for additional information about the Fund such as complete portfolio holdings and historical returns.

[Please see slide 20] 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 see slide 21] 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.

[Please see slide 22] 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. **Past performance is no guarantee nor is it indicative of future results.**

[Please see slide 23] Any mention of individual securities or sectors should not be construed as a recommendation 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 sector examples discussed.

[Please see slide 24] Any statistics or market data mentioned during this webcast have been obtained from sources believed to be reliable, but the accuracy and completeness cannot be guaranteed.

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You should consider the Fund's investment objectives, risks, and charges, and expenses carefully before you invest. The prospectus details the Fund's investment objective and policies, risks, charges, and other matters of interest to a prospective investor. Please read the prospectus carefully before investing. The prospectus for the Fund may be obtained by visiting the website at fpas.fpa.com or by email at crm@fpa.com, tollfree by calling 1-800-982-4372, or by contacting the Fund in writing.

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

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