We hope that investors will find FPA commentaries helpful to understand application of the same investment discipline in various markets, and can refer to particular items that interest them.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. Current month-end performance data may be obtained by calling toll-free, 1-800-982-4372.

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, sales charges, 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 email at crm@fpafunds.com, toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.

Sales charges vary depending on levels of investment.

Average Annual Total Returns
As of December 31, 2012

Fund/Index	QTR	YTD	1 Year	3 Years**	5 Years**	10 Years**	Since Inception**
FPA Crescent	1.91%	10.33%	10.33%	8.39%	5.37%	9.17%	10.69%
S&P 500	-0.38%	16.00%	16.00%	10.87%	1.66%	7.10%	8.11%
60% R2500/40% BCGC	2.01%	12.70%	12.70%	11.20%	5.77%	8.87%	8.84%

** Annualized. Inception of FPA Crescent is June 2, 1993.
A redemption fee of 2.00% will be imposed on redemptions of shares within 90 days. Expense ratio as of most recent prospectus is 1.25%.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. Current month-end performance data may be obtained by calling toll-free, 1-800-982-4372.

To view portfolio holdings from the most recent quarter end, please refer to the end of this document or at www.fpafunds.com.

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 Funds, Advisor or Distributor.

The discussions of Fund investments represent the views of the Fund's managers at the time of each report and are subject to change without notice. These views may not be relied upon as investment advice or as an indication of trading intent on behalf of any First Pacific Advisors portfolio. Security examples featured are samples for presentation purposes and are intended to illustrate our investment philosophy and its application. It should not be assumed that most recommendations made in the future will be profitable or will equal the performance of the securities.

The Russell 2500 Index consists of the 2,500 smallest companies in the Russell 3000 total capitalization universe. This index is considered a measure of small and mid-capitalization stock performance. The Standard & Poor's 500 Stock Index (S&P 500) is a capitalization-weighted index which covers industrial, utility, transportation and financial service companies, and represents approximately 75% of the New York Stock Exchange (NYSE) capitalization and 30% of NYSE issues. This index is considered a measure of large capitalization stock performance. These indices do not reflect any commissions or fees which would be incurred by an investor purchasing the stocks they represent. The Balanced Benchmark is a combined index of which 60% reflects the Russell 2500 Index and 40% the Barclay Government/Credit Index. The performance of the Fund and of the Averages is computed on a total return basis which includes reinvestment of all distributions.

Fund Risks

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. Certain funds 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; this may be enhanced when investing in emerging markets. Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks.
The return of principal in a bond fund is not guaranteed. Bond funds have the same issuer, interest rate, inflation and credit risks that are associated with underlying bonds owned by the fund. Lower rated bonds, callable bonds and other types of debt obligations involve greater risks. Mortgage securities and asset backed securities are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; derivatives may increase volatility.

The FPA Funds are distributed by UMB Distribution Services, LLC, 803 W. Michigan Street, Milwaukee, WI, 53233.

Dear Shareholders:

Overview

FPA Crescent returned 10.33% in 2012, compared to the S&P 500's 16.00%. Our concerns – telegraphed last year in similar letters – largely materialized, so we maintained our conservative investment posture in 2012. The U.S. economy grew anemically and our national debt hit highs. On average, consensus estimates for U.S. corporate earnings disappointed. In fact, 2012's Q3 earnings were lower than those in Q3 2011. Worrywarts by nature, we continue to seek to deliver equity returns while trying to avoid permanent losses of capital. Our invested exposure marginally outperformed the broad indices, but not to the extent that we would prefer. We invest more aggressively when industry groups and asset classes are falling from favor, as well as in periods of general market volatility (downside). Historically, our strongest absolute and risk-adjusted returns stem from those periods.

The fourth quarter's winners and losers are as follows[1]:

2012 Q4 Winners & Losers

Winners	Losers
Lowe's	Microsoft
Aon	Occidental Petroleum
Orkla	ATP Oil & Gas

Clearly, 2012 was the year that wasn't as far as stress and distress was concerned, and a conservative strategy didn't pay as well as a more aggressive approach. Publicly traded securities were neither particularly cheap nor expensive at the beginning of 2012 and we feel the same way now, and there's an ongoing risk of a rush to the exit once it's decided that the easy money policy should end. Central banks kept a heavy hand on the rudder of the economy, which surely led to Fed Chairman Ben Bernanke and European Central Bank (ECB) Chairman Mario Draghi receiving more thank you notes than Santa Claus this holiday season. The Federal Reserve is forcing people into risk assets. You can own a one-year Treasury Bill and receive 0.12%, or you can assume more interest rate risk and own a 10-year Treasury Note and collect all of 1.73% a year[2]. If that's all you're going to get for braving the risk of a rate rise, investors are increasingly asking themselves, 'Why not just own stocks, or other risk assets?"

Sometimes, in the quest for return, risk can be conveniently redefined, if not wholly ignored. We have recently seen investors (both institutional and individual), rationalizing the assumption of more risk. *Pension & Investments* recently reported that, "Institutional investors are turning to riskier assets to improve performance in the persistent low-yield environment, but they are doing so without dramatically increasing the risk level of their overall portfolios." [3] We hope they're right.

Artificial and unsustainably low cost of capital perverts capital allocation decisions. Fear of not having enough income pushes the elderly to own more equities or riskier bonds. Companies will find that they can invest capital that wouldn't otherwise meet their return-on-capital hurdles (ROC). In general, investors are more able/willing to assume greater risk, and they sometimes forsake liquidity in the process, even though they might have near-term needs for that capital. It's easier to spend capital when it's sitting on your balance

[1] Refer to the portfolio holdings listed on page 15 of this document or at fpafunds.com.
[2] As of January 15, 2013.
[3] Drew Carter, "Risky Assets Don't Equal Riskier Portfolio," *Pension & Investments*, November 12, 2012.

sheet, earning essentially nothing. And companies that should die are kept alive by an endless supply of cheap money. We feel like we've fallen down the rabbit hole. Traditional investment decision-making processes have been hijacked by zero-interest-rate-policy (ZIRP).

As we learned from Japan, low interest rates are not a panacea. Japanese interest rates have been close to zero percent since 2000, but Japan has had negligible real GDP growth in the last two decades, persistent deflationary pressures and budget deficits that have, as a result, left the country with a debt-to-GDP ratio of 250%, and its benchmark Nikkei stock index[4] more than 70% off its peak. Clearly, low interest rates don't always have the economic impact one would hope. We can't help but wonder what our own consequences will be from the Fed's actions. We have spoken of potential economic ramifications in past commentaries, so we won't repeat them here, but we have little ability to handicap how things will unfold.[5]

We also have no idea how the securities markets and economy will perform, particularly over the short-term. We are in the business of investing when there's opportunity – our definition, not someone else's. Should stocks continue to grind upward over the next few years, we believe you may be better off having more exposure to other, less conservatively postured funds. Are we wrong? Time will tell. Our definition of right and wrong may be skewed because we never worry about our performance lagging over the short-term, and we don't always consider losing money a mistake. The question that guides us, is, 'what kind of risk should we assume for the potential of an always uncertain reward?'

Economy

We are generally more concerned about what people aren't discussing, rather than what's in the headlines. Fear of falling off the Fiscal Cliff occupied most people at the end of 2012, stoked by the count-down clocks on certain television networks. We always believed there would be some ineffectual short-term "solution" that would raise revenues (i.e., taxes), but avoid the politically charged (but necessary) spending cuts.

It wouldn't pass muster if the Smith family spent $145,000, but had only $100,000 in annual household income, so why is that kind of budgeting acceptable for the U.S. Government? What if the $45,000 deficit brought the Smith family's household debt up to $664,000 – 6.6x their annual income – the same debt ratio as the U.S. Government? You'd hope that the Smiths would cut their spending. But if instead they mirrored the actions by the U.S. Government in the recent Fiscal Cliff negotiations, then the Smiths would have reduced their outlays by a mere $1,559. A lender would not have allowed the Smiths to have gotten themselves into such financial straits, but the magic of paper money allows our nation's leaders to flout prudence and common sense.

	Smiths	US Government
Income	$100,000	$2,469,000,000,000
Budget	$145,403	$3,590,000,000,000
Deficit/new debt	-$45,403	-$1,121,000,000,000
Ending debt	$664,237	$16,400,000,000,000
Recent budget cuts	$1,559	$38,500,000,000

Source: FPA, Office of Management and Budget.

Officials in developed countries continue to administer economic medicine with an eye to palliative rather than curative care. By keeping interest rates low and monetizing the debt, Congress can postpone hard decisions. Congress recently approved tax increases without much in the way of spending cuts. The focus on avoiding pain and suffering at the expense of healing will only cause greater problems later. Misplaced faith

[4] Nikkei index is an index of 225 leading stocks traded on the Tokyo Stock Exchange.
[5] fpafunds.com/docs/quarterly-commentaries-crescent-fund/crescent-2012-q2-finalF698E2B766A2.pdf?sfvrsn=6

in the "expert" guidance of the academic elite leads us down a path where sovereign borrowings balloon, and fiat money papers over temporary problems, ensuring that they become permanent instead. (See our recent piece titled Blind Faith available on our website.[6]) Economists are faced with a prisoner's dilemma. A country can't save its way to prosperity via austerity, nor can it spend its way to prosperity via debt accumulation. Certain decisions can allow economies to feel superficially good – but like any Faustian bargain, a price will ultimately be paid. For example, just one of the many dangers of continuous Quantitative Easing (QE) is demand impairment, which limits a company's ability to raise prices to cover cost increases. The late economist Ludwig von Mises said this about the challenges of understanding the longstanding ramifications of economic decisions: "No very deep knowledge of economics is usually needed for grasping the immediate effects of a measure; but the task of economics is to foretell the remoter effects, and so to allow us to avoid such acts as [an] attempt to remedy a present ill by sowing the seeds of a much greater ill for the future."[7]

Here's an example of feeling superficially good. In 2012, 2.4 million more people gained employment, causing the ranks of the unemployed to decline by 843,000, and the unemployment rate to drop to 7.8%, its lowest level since the recession.

	Employed	Unemployed	Unemployment
Dec-11	140,896	13,049	8.5%
Dec-12	143,305	12,206	7.8%
Increase/(decrease)	2,409	(843)	-0.7%

Source: Bureau of Labor Statistics

The optics look good until one cleans off the lens, but this is actually the worst economic recovery since the Depression. In fact, 2.2 million people have exited the labor force in the last year and an additional 397,000 are currently seeking a job.[8] Those who are working average just 34.5 hours a week, less than the pre-2008 average of 39.2 hours per week. Finally, we also still have 8 million people who are employed only part-time for economic reasons.

	Employed part-time for economic reasons	Not in labor force	Persons who currently want a job
Dec-11	8,168	87,212	6,135
Dec-12	7,918	89,445	6,532
Increase/(decrease)	(250)	2233	397

Source: Bureau of Labor Statistics

And in 2012, the Supplemental Nutritional Assistance Program (SNAP) had almost as many new participants as there were jobs created. Against the backdrop of 2.4 million additional jobs, the number of people on food stamps rose by 1.9 million to a total of 47 million people, or 15% of the population.

[6] fpafunds.com/docs/special-commentaries/blind-faith---final-10-31-12.pdf?sfvrsn=2
[7] William White, "Ultra Easy Monetary Policy and the Law of Unintended Consequences," published by the Federal Reserve Bank of Dallas, August 24, 2012. Ludwig von Mises citation on page 2.
[8] U.S. Bureau of Labor Statistics (BLS).

	SNAP
Dec-11	44,709
Dec-12	46,609
Increase/(decrease)	1,900

Source: Bureau of Labor Statistics

Central banks maintain the view that by keeping yields low, asset prices will expand, creating wealth and igniting animal spirits. But that pushes us back to trickle-down economics. Because the average person doesn't have much of an investment portfolio, it's no wonder we haven't seen the GDP boost the Fed hoped for.

The Economist offered an especially succinct commentary on the ECB's aggressive and potentially destructive easy monetary policy, and we quote the headline here because it could easily be applied to similar policies in the U.S. and Japan: "The ECB and OMT: OTT, OMG or WTF?"[9] One shouldn't entirely fault the Federal Reserve for reckless policy, however. If our elected officials had taken the running room the Fed provided at the outset and affected genuine change, then we'd have sustained real growth at this point. Fed action did help our economy avoid a depression, and it set the stage for Congress to act. Unfortunately, continued Fed action affords elected officials the luxury of avoiding the necessary, painful action. And, one cannot assign all the blame to Washington D.C. -- most of the rest of the nation also wants someone else to pay for the shortfalls.

Our financial ecosystem has become impossibly complex, but somehow people have faith that the economy can be guided remotely, like a drone piloted by a skilled armchair captain far from the field of battle.
We know that we can't determine the outcome, let alone predict the timing. And, for that matter, I would argue that whatever expert(s) gets both right will be vastly outnumbered by those who are wrong. We wait for the end of QE with trepidation because we fear the unarticulated exit strategy. When interest rates do start to tick up (which could be a while based on Fed statements), interest on the national debt would soar if the Fed unloaded treasuries. Likewise, mortgage rates would climb if the Fed unloaded agencies at a time interest rates were creeping up. Dallas Fed President Richard Fisher told CNBC that he's worried the U.S. Central Bank is in a "Hotel California" type of monetary policy because of its "engorged balance sheet."[10] Evoking lyrics from the famous song by The Eagles, Fisher said he feared the Fed would be able to "check out anytime you like, but never leave."[11]

We'll end the economic discussion on an upbeat note; otherwise it would be hard to justify our 61% exposure to stocks. U.S. housing is in a recovery that we expect to be sustainable. . Auto sales continue to rebound, helped by the oldest fleet in U.S. history (at ~11 years). And although the consumer is still leveraged, he has paid down some debt. Consumer Debt as a % of Disposable Income has declined from 129% in 2007 to 107% in the third quarter of last year, but it's still well above 95% seen in 2000.[12]

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[9] Buttonwood's Notebook, "The ECB and OMT: OTT, OMG or WTF?" *The Economist*, Sept. 7, 2012. Acronym translation: ECB (European Central Bank), OMT (outright monetary transactions programme), OTT (over the top), OMG (oh my God), and WTF (what the f***?).

[10] globaleconomicanalysis.blogspot.com/2012/12/dallas-fed-richard-fisher-fed-risks.html

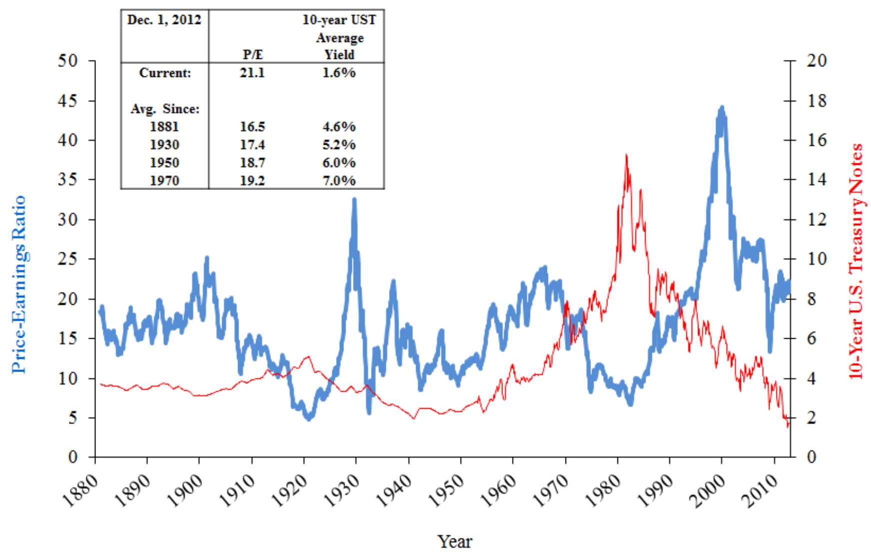
[11] Mike Shedlock, "Dallas Fed Richard Fisher: Fed Risks 'Hotel California' Monetary Policy," Mish's Global Economic Trend Analysis, Dec. 14, 2012.

[12] Federal Reserve Bank, Richmond.

Investments

The following two charts[13] show valuations above average but not wildly extended. As long as interest rates remain low and companies meet their earnings expectations, the stock market should be fine. However, we've shared our skepticism as to the sustainability of low interest rates, and we believe earnings growth will be anemic when compared to the past. Looking back to the 1970s, the price/earnings ratio[14] (P/E) is about 10% above average, after having increased from 19.9x to 21.1x last year.[15]

Historic P/E ~ 10-Year Average Earnings



Source: Shiller, Robert J. Online Data Robert Shiller and Bloomberg. Data as of December 26, 2012.

It's harder to develop a sanguine view when looking at the bond market. Government bond yields are at all-time lows, and so are the yields on the high-grade and high-yield corporate bond indices, as evidenced in the following chart.[16]

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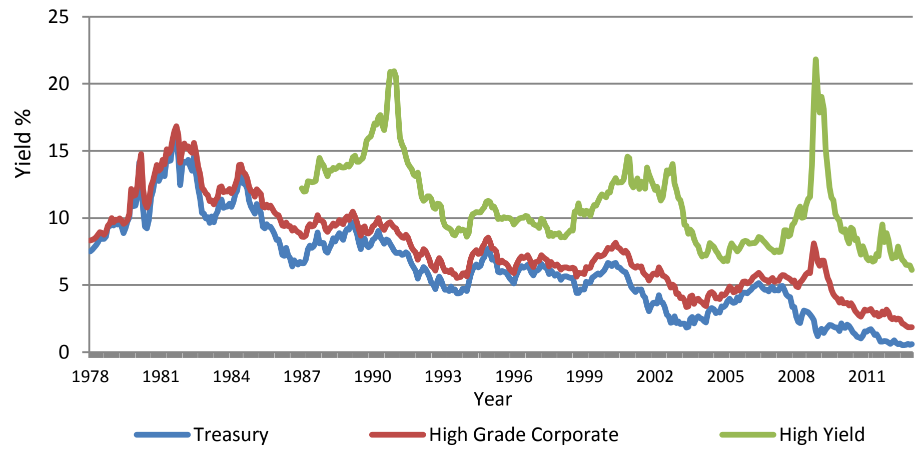
[13] Price to Dividend is a valuation ratio of a company's current share price compared to its per-share dividend. Price to Revenue is a valuation ratio of a company's current share price compared to its per-share revenue. Price to Earnings is a valuation ratio of a company's current share price compared to its per-share earnings.
Shilrpe is a valuation ratio of a company's current share price compared to its per-share earnings that is calculated by Shiller, Robert J. *Online Data Robert Shiller*.

[14] Price to Earnings Ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings.

[15] We prefer to look at the P/E smoothed over time by virtue of using 10-year average earnings in the denominator.

[16] The Barclays Intermediate U.S. Treasury Index includes all publicly issued, U.S. Treasury securities that have a remaining maturity of equal to or greater than 1 year and less than 10 years, are rated investment grade, and have $250 million or more of outstanding face value. The Barclays Intermediate US Corporate Index tracks the intermediate term (1-10 years) sector of the United States corporate bond market. Barclays U.S Corporate High-Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt.

Bond Yields: Government & Corporate High Grade & High Yield



Source: Morningstar

We wrote in our 3rd quarter commentary that we had reduced our Wal-Mart exposure. For similar valuation reasons, we have reduced our holdings in a host of other larger cap, quality companies. We also reduced our exposure to energy companies. Although our exposure to the energy sector had shrunk from 20.0% in 2008 to 9.3% at the end of 2011, we still expected these investments to share in the upside of an improving global economy. That has not proven to be the case, largely due to poor capital allocation decisions in the industry, new technologies that have increased both the accessibility and availability of oil and gas supplies, and the higher cost of those new technologies. The investments became too much of a call on the commodity, and less of a call on the business franchise. We ended the year with 6.2% invested in the energy sector, and we have redeployed that capital in businesses we believe have better organic growth prospects and management teams that make better capital allocation decisions.

Lower growth rates in the U.S. continue to drive us overseas and into investments that have some combination of better growth rates and cheaper valuations.

Groupe Bruxelles Lambert

Groupe Bruxelles Lambert (GBL) is a Belgian holding company run by Albert Frere, a man widely referred to as the 'Warren Buffett of Europe.' The company owns significant stakes in a variety of established companies including Total (energy), Lafarge (cement), Pernod (alcoholic spirits), and GDF Suez (utility). Though the various underlying companies all have leverage of varying degrees, the holding company is essentially debt free, allowing for a simple sum of the parts evaluation.

Our attraction to GBL was not just the 25-30% discount to NAV at which the shares have traded, but also that the various parts of the company were generally out of favor and relatively inexpensive at low double digit earnings multiples. By purchasing a collection of inexpensive companies via a holding company trading at less than NAV, we viewed ourselves as effectively taking advantage of a double discount.

We put GBL in the category we term 'infinite duration bonds[17].' We naturally recognize that this is an equity, but unlike a bond it should have a rising coupon. Assuming dividends were reinvested in the security, GBL's USD-based returns over the past decade have been in excess of 10%, which beats the roughly 7.4% U.S. dollar-based compounded return for the Euro Stoxx 50, a collection of leading Blue-chip companies based in the Eurozone.[18] Moreover, given that Belgium-based holding companies are not subject to capital gains taxes on the sale of assets, we would argue that the GBL discount is perhaps less justified than that

[17] Infinite duration bonds refer to bonds that we think will continue to offer a favorable risk/reward relationship.
[18] Bloomberg.

applied to holding companies domiciled in jurisdictions with less favorable tax policies. While we see no catalyst for narrowing the gap between GBL's market valuation and NAV, our purchase price was accompanied by a dividend yield of roughly 4.5%.

Orkla ASA

Norway-based Orkla has all the characteristics of a classic Contrarian special situation with a catalyst. At the time of our purchase, the company was viewed as an unwieldy conglomerate with activities in branded consumer goods (think a Scandinavia-focused Unilever), hydro power, aluminum industrial products (SAPA), specialty chemicals (Borregaard), solar (REC), and a significant minority interest in a privately-held paints and coatings business (Jotun). As if the aforementioned smorgasbord of activities was not sufficiently complex to discourage analysis, Orkla also had a portfolio of publicly traded securities and a collection of Scandinavian real estate investments.

Our interest in the name was piqued by a publicly announced plan to reduce the 'diworsification'[19] activities and refocus primarily on the branded consumer goods business. Despite being buried in what had been widely regarded as a poorly run conglomerate, the branded goods businesses has a history of maintaining long-standing, best-in-class brands and has shown that it can develop successful new products. Although Orkla lacks global brands, about 80% of sales are in the Nordic region, roughly 80% of sales come from products with #1 market positions, and about 70% of sales come from its ten largest product categories.

The catalyst for change in Orkla's capital allocation strategy stems from action taken by the Chairman of the Board, Erik Stein Hagen, a Norwegian billionaire who made his fortune in the grocery business (which was, coincidentally, a big buyer of Orkla branded goods products). Mr. Hagen owns about 25% of Orkla, and since it accounts for a meaningful portion of his net worth, he has a vested interest in the success of the firm.

Mr. Hagen's early restructuring moves included the appointment of a new CEO whose mandate is to improve the overall profitability of the branded goods segment. As of late, the business has exhibited the ability to earn EBITA[20] margins of 10% to 12%, with capital turnover of 1.5x to 1.8x, resulting in pre-tax returns on capital employed of 16% to 21%[21]. While these metrics are above that of the average public company, management will be the first to tell you that Orkla is nonetheless performing below its global peers. Based on our discussions with industry analysts, competitors, and third-party advisors, we believe the refocused company has room to improve both operating margins and return on capital through various self-help initiatives, some of which have already been implemented.

We began purchasing Orkla in November 2011 on the belief that, net of conservative valuations for non-core businesses, we were purchasing the branded goods business at roughly 10-11x after-tax earnings, assuming no improvement in profitability. We viewed this price as offering a margin of safety[22] in combination with optionality on improvement in the core business, accretive mergers & acquisitions, and an economic recovery that would allow a realization of non-core businesses in excess of our ascribed value. While the story has not yet completely played out, thus far, the plot is unfolding as we had hoped. Though the valuation is no longer as compelling as it was at our time of purchase, the current price remains sufficiently reasonable that we intend to stick around for the second half of the show.

While we wish there was more to be excited about in the portfolio today, we don't just sit and wile away our time waiting for the door of opportunity to reopen. We spend our days (and many nights) researching

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[19] A term that was coined by legendary investor Peter Lynch in his book, "One Up Wall Street," where he suggested that a business that diversifies too widely, risks destroying their original business, because management time, energy and resources are diverted from the original investment.

[20] EBITA is a corporation's profit for a particular period before taking into account interest payments on debt, tax, and amounts for depreciation and amortization of assets.

[21] www.orkla.com

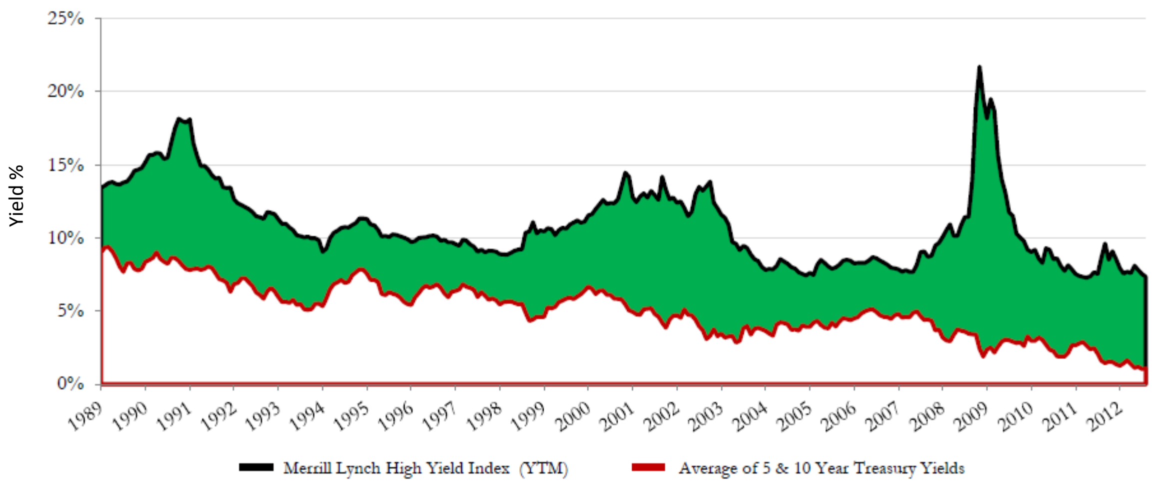
[22] Buying with a "margin of safety," a phrase popularized by Benjamin Graham and Warren Buffet, is when a security is purchased for less than its estimated value. This helps protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

businesses we'd like to own. We can't tell you when that door will open, but it always does, which saves us from dislocating our shoulder (and the value of the capital entrusted to us) in a futile attempt to knock the door down.

High Yield / Distressed

The quest for income in a low yield environment drove high yield up 15.59% in 2012.[23] If we could repeat the year, we would make the same decision to maintain little exposure to the asset class. Available yields in 2011 were too low to justify the risk inherent in owning high yield bonds, but it's worse now. The chart below makes high yield bonds look reasonable relative to U.S. Treasury yields, with spreads around their historic average.[24]

Bank of America Merrill Lynch High Yield Index (YTM) vs. Average of 5 & 10 Year U.S. Treasury Yields



Source: Bloomberg.

But a reasonable spread is only good enough if you have an acceptable starting yield, and therein lies one of our issues with the high yield market. With 10-year treasuries yielding an artificially and unsustainably low 1.9%, the high yield bondholder, on average, receives just a 6.7% yield-to-maturity.[25] In our opinion, this fails to justify the interest rate and credit risk assumed, particularly in light of the weak covenants embedded in many of these issues.

Inappropriate assumption of risk is a hallmark of investing. It feeds both bull and bear markets. Usually one thinks of investor fear driving asset sales, but there's also the fear of not making enough that causes people to pile into investments. For example, investors have been aggressively buying corporate bonds now because they need the return that their money market funds or conservative bond portfolios can't offer them. This leads to a perfect environment for sellers of debt (i.e., borrowers), and sell they have. As the table below reflects, $780 billion of high-yield debt has been issued in the last three years, and that doesn't include the billions of dollars issued in the levered loan market. That is more than any other period in history. The average over the last three years is about equal to the combined totals for 2006 and 2007, the years preceding

[23] Source: Morningstar. BofA Merrill Lynch US High Yield Master II Index.

[24] Data as of December 31, 2012. BofA Merrill Lynch US High Yield Master II Index value, which tracks the performance of US dollar denominated below investment grade rated corporate debt publically issued in the US domestic market. To qualify for inclusion in the index, securities must have a below investment grade rating (based on an average of Moody's, S&P, and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P, and Fitch foreign currency long term sovereign debt ratings). The Yield to maturity (YTM) of a bond or other fixed-interest security, such as gilts, is the internal rate of return (IRR, overall interest rate) earned by an investor who buys the bond today at the market price, assuming that the bond will be held until maturity, and that all coupon and principal payments will be made on schedule.

[25] BofA Merrill Lynch US High Yield Master Index II, as of December 31, 2012.

the 2008 meltdown.

High Yield New Issues
1962 - 2012

Yearly	Ba	B	Caa	NR	Total	Caa +NR %	$Caa +NR $	Redeem %
1996	23,928	40,819	1,336	6,471	**72,554**	10.8%	7,807	19.9%
1997	44,406	71,814	6,091	9,433	**131,744**	11.8%	15,524	24.2%
1998	38,570	72,787	12,309	13,638	**137,304**	18.9%	25,947	19.0%
1999	26,648	60,217	1,875	2,544	**91,284**	4.8%	4,419	47.9%
2000	12,784	23,655	3,205	4,717	**44,361**	17.9%	7,922	74.9%
2001	31,492	45,800	1,543	813	**79,648**	3.0%	2,356	46.3%
2002	17,421	39,435	1,435	255	**58,545**	2.9%	1,690	58.5%
2003	33,323	87,712	7,446	1,831	**130,313**	7.1%	9,278	45.7%
2004	34,468	78,100	21,291	543	**134,403**	16.2%	21,835	64.0%
2005	25,142	54,698	13,213	410	**93,462**	14.6%	13,623	62.4%
2006	50,113	70,927	19,821	1,508	**142,370**	15.0%	21,329	50.8%
2007	27,607	76,010	32,960	1,990	**138,560**	25.2%	34,950	68.6%
2008	13,263	25,142	10,214	1,121	**49,739**	22.8%	11,335	114.5%
2009	49,731	87,345	14,063	1,461	**152,599**	10.2%	15,524	68.8%
2010	63,933	151,102	43,409	4,210	**262,654**	18.1%	47,619	51.2%
2011	72,210	113,650	33,617	4,200	**223,680**	16.9%	37,817	66.0%
2012	84,610	187,000	54,790	9,810	**336,200**	19.2%	64,600	52.2%

Source: Barclays Capital. As of December 31, 2012.Unit of measure is in billions. Ba, B, Caa signify Moody's ratings.

It's so easy for corporate borrowers that companies and Leveraged Buyout (LBO) firms are falling all over each other, borrowing to refinance, to recapitalize, or to make acquisitions. We look forward to a time when buyers are more circumspect, and prices of existing issues decline. I'm confident that, in the future, we'll own distressed bonds that were born during this binge.

Capacity Discussion

Given the Fund's asset growth since our October 2008 reopening, we thought we should spend some time discussing the capacity of the FPA Crescent Fund. We closed FPA Crescent to new capital in February 2005. At the time, we told investors that we would consider reopening when two things occurred: An expansion of the team and its capabilities, and identifiable investment opportunities. Over the next few years, we added analysts with strong and, just as important, broad capabilities. We reopened the Fund in the face of declining securities markets and a rapidly deteriorating global economy – a ripe environment for deploying capital. Since reopening, we have continually evaluated closing the fund to new investors. We have remained open so far because we believe the Fund's size and asset flows have not materially impacted our ability to achieve the Fund's goals.

Capability: The team now stands at nine dedicated analysts (including our three-person investment committee), up from just two when we closed in 2005. The larger team gives us the luxury of retaining in-house knowledge in a variety of disciplines. The deeper bench has expanded our opportunity set, allowing us to maintain our high standards of research analysis for each and every investment, whether it be restructurings, activist roles, distressed corporate debt, discounted mortgage whole loans, international equities, specific industries, or unique asset classes. The successful implementation of our rigorous research process amongst all of our team members, gives me confidence that we have the capabilities and capacity to manage the increased asset base. In fact, we recently began interviewing to add a new member to the team, and though we are early in the interview process, we have been delighted thus far by the quality of the candidates.

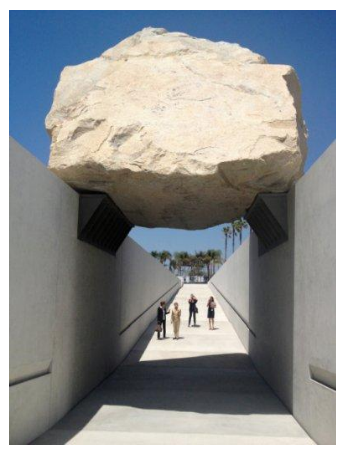
Opportunity: When thinking about closing, we also think about the investing environment --both the current opportunity set and our expectations for future opportunities. Currently, we find limited prospects. However, we believe the future opportunity set will be substantial. As we have oft discussed, we are managing capital in the face of Central Bankers' "grand experiment" that we do not believe will end well, fomenting volatility and creating opportunity. We continue to maintain a more defensive posture until the fallout. Though underperformance might be the price we pay in the interim should the market continue to rise, we believe in focusing on the preservation of capital before considering the return on it. The imbalances that we see, coupled with the current positioning of our Fund, give us confidence that over the long term, we will be able to invest our increased asset base in compelling absolute value opportunities.

Fund flows: We are sensitive to the negative impact that substantial asset flows (in or out) can have on the management and performance of a portfolio. At present, asset flows are not material relative to the size of the Fund, so we believe that the portfolio is not harmed. However, while members of the Investment Committee will continue to be available to existing clients, we have restricted discussions with new relationships so that our attention can be on investment management rather than asset gathering.

For now, we are satisfied with the team's capabilities, the Fund's positioning, and the impact of asset flows. As fellow shareholders, should anything cause us to doubt the likelihood of meeting our stated objectives we will close the Fund as we did before, and/or return capital to our shareholders.

Conclusion

Our success, such as it may be, is dictated primarily by two factors: 1) A rigorous and replicable process by which we analyze businesses and assets that offer what we believe are superior prospective returns as well as the safety cushion of a discounted price; and 2) Patience. Our willingness to wait for opportunity -- and when found, to wait for that investment to succeed -- means that our trading department sometimes gets a tad bored, and some clients get anxious. We are neither. We occupy ourselves by continuing to learn new businesses that may or may not end up in the portfolio. We know there will be more bad news, and with it more volatility and investment opportunity, but we never know when. That means our results will lag at times, as they have in the past and will in the future. But it also means we will lead at other times, and we've done that in the past and hope to do so in the future. We are in the arbitrage business, but not in the traditional merger-arbitrage sense of the term. We engage in time arbitrage. We tend to buy early, average down, and then wait until our thesis is proven correct, and then we exit. This can happen quickly, or it may take years. While a quick success is easy for investors to digest, one that takes longer can be tough for clients to stomach.



We think in years, not in months or even days, in all aspects of our business and we look for associates who think similarly. In 2012, Crescent added two new members to the team and had one departure. We hire when we believe that an analyst will succeed in our rigorous and disciplined approach. The turnover on our investment team is extraordinarily low, and we owe at least part of that success to a long interview process.

We recently visited the Los Angeles County Museum of Art (LACMA) and were struck by an exhibit that reminded us that support for the stock and corporate bond market can change in an instant. *Levitated Mass* by artist Michael Heizer is composed of a 456-foot-long slot constructed on LACMA's campus, over which is placed a 340-ton granite megalith. At $10 million, it's pricey (says the Philistine) and not without risk, though the people walking under it may have forgotten – or decided to ignore – the fact that they are doing so in earthquake prone L.A. We'll take the long way around.

Respectfully submitted,

Steven Romick
President
January 22, 2013

FPA investors first

FPA Crescent Fund

Portfolio Holdings

12/31/2012

CUSIP/SEDOL	TICKER	SHARES	SECURITY	MKT PRICE	MKT VALUE	COUPON RATE	MATURITY DATE	% OF NET ASSET VALUE
017175100	Y	286,200	ALLEGHANY CORPORATION	$ 335.42	$ 95,997,204.00			0.97%
026874784	AIG	5,168,300	AMERICAN INTERNATIONAL GROUP, INC.	35.30	182,440,990.00			1.84%
032654105	ADI	3,522,000	ANALOG DEVICES, INC.	42.06	148,135,320.00			1.49%
03524A108	BUD	2,160,400	ANHEUSER-BUSCH INBEV SA/NV - ADR *	87.41	188,840,564.00			1.90%
37389103	AON	6,380,300	AON*	55.60	354,744,680.00			3.58%
013417504	ARRS	3,447,200	ARRIS GROUP, INC.	14.94	51,501,168.00			0.52%
009873597	BAC	3,801,200	BANK OF AMERICA CORPORATION	11.60	44,093,920.00			0.45%
064058100	BK	4,491,400	BANK OF NEW YORK MELLON CORPORATION	25.70	115,428,980.00			1.16%
136385101	CNQ	5,176,500	CANADIAN NATURAL RESOURCES LIMITED *	28.87	149,445,555.00			1.51%
17275R102	CSCO	10,977,200	CISCO SYSTEMS	19.65	215,701,980.00			2.18%
		3,171,611	COUNTRYWIDE HOLDINGS, LTD. - A *	4.06	12,884,035.37			0.13%
		3,171,611	COUNTRYWIDE HOLDINGS, LTD. - B *	-	0.00			0.00%
125581801	CIT	2,745,600	CIT GROUP	38.64	106,089,984.00			1.07%
172967424	C	1,781,300	CITIGROUP	39.56	70,468,228.00			0.71%
G2554F105	COV	4,851,700	COVIDIEN PLC *	57.74	280,137,158.00			2.82%
126650100	CVS	6,805,000	CVS CAREMARK	48.35	329,021,750.00			3.32%
29358Q109	ESV	1,633,400	ENSCO PLC - ADR (1) *	59.28	96,827,952.00			0.98%
B1VXKN7	GENM_MK	53,251,200	GENTING MALAYSIA BERHAD *	1.16	61,819,318.08			0.62%
38259P508	GOOG	256,000	GOOGLE	709.37	181,598,720.00			1.83%
7097328BE	GBLB_BB	1,661,327	GROUPE BRUXELLES LAMBERT S.A. *	79.35	131,824,137.72			1.33%
5002465DE	HEN_GR	920,000	HENKEL AG & CO. KGAA *	68.52	63,035,088.00			0.64%
428236103	HPQ	2,991,800	HEWLETT-PACKARD	14.25	42,633,150.00			0.43%
009978810	IPG	9,532,300	INTERPUBLIC GROUP OF COMPANIES	11.02	105,045,946.00			1.06%
478160104	JNJ	1,870,000	JOHNSON & JOHNSON	70.10	131,087,000.00			1.32%
6483809	4452_JP	2,130,300	KAO CORPORATION*	25.93	55,228,240.53			0.56%
548661107	LOW	3,920,000	LOWE'S COMPANIES	35.52	139,238,400.00			1.40%
594918104	MSFT	11,265,000	MICROSOFT	26.73	301,113,450.00			3.04%
674599105	OXY	2,019,000	OCCIDENTAL PETROLEUM	76.61	154,675,590.00			1.56%
681904108	OCR	5,846,000	OMNICARE	36.10	211,040,600.00			2.13%
68389X105	ORCL	5,825,000	ORACLE CORPORATION	33.32	194,089,000.00			1.96%
	ORK_NO	21,881,000	ORKLA ASA	8.72	190,872,339.20			1.92%
			OTHER		287,093,554.00			2.90%
690768403	OI	5,815,100	OWENS-ILLINOIS	21.27	123,687,177.00			1.25%
716768106	PETM	915,000	PETSMART	68.34	62,531,100.00			0.63%
4712798	RNO_FP	2,084,000	RENAULT S.A.*	53.68	111,868,703.20			1.13%
779382100	RDC	1,425,000	ROWAN COMPANIES*	31.27	44,559,750.00			0.45%
0884709	TSCO_LN	31,096,050	TESCO PLC*	5.46	169,775,104.19			1.71%
4162791	HO_FP	2,850,886	THALES S.A.*	34.63	98,719,625.14			1.00%
883556102	TMO	3,565,000	THERMO FISHER SCIENTIFIC INC.	63.78	227,375,700.00			2.29%
89417E109	TRV	1,261,000	THE TRAVELERS COMPANIES	71.82	90,565,020.00			0.91%
B12T3J1	UNA_NA	2,973,147	UNILEVER N.V. *	38.04	113,113,080.30			1.14%
931142103	WMT	1,295,000	WAL-MART STORES	68.23	88,357,850.00			0.89%
931422109	WAG	2,175,000	WALGREEN	37.01	80,496,750.00			0.81%
94973V107	WLP	2,025,000	WELLPOINT	60.92	123,363,000.00			1.24%
958102105	WDC	1,850,000	WESTERN DIGITAL	42.49	78,606,500.00			0.79%
B3DMTY0	WPP_LN	10,134,960	WPP PLC*	14.43	146,238,351.34			1.47%
984121103	XRX	11,380,000	XEROX CORPORATION	6.82	77,611,600.00			0.78%
			TOTAL COMMON STOCK (LONG):		**6,329,023,313.06**			**63.82%**
026375105	AM	(419,800)	AMERICAN GREETINGS - A	16.89	(7,090,422.00)			-0.07%
053484101	AVB	(100,400)	AVALONBAY COMMUNITIES	135.59	(13,613,236.00)			-0.14%
05946K101	BBVA	(201,130)	BANCO BILBAO VIZCAYA ARGENTARIA, S.A. - ADR *	9.42	(1,894,644.60)			-0.02%
25960P109	DEI	(417,600)	DOUGLAS EMMETT	23.30	(9,730,080.00)			-0.10%
297178105	ESS	(88,200)	ESSEX PROPERTY TRUST	146.65	(12,934,530.00)			-0.13%
302182100	ESRX	(385,427)	EXPRESS SCRIPTS, INC.	54.00	(20,813,058.00)			-0.21%

CUSIP/SEDOL	TICKER	SHARES	SECURITY	MKT PRICE	MKT VALUE	COUPON RATE	MATURITY DATE	% OF NET ASSET VALUE
313747206	FRT	(107,300)	FEDERAL REALTY INVESTMEMT TRUST	104.02	(11,161,346.00)			-0.11%
40414L109	HCP	(226,700)	HCP, INC.	45.18	(10,242,306.00)			-0.10%
44106M102	HPT	(182,300)	HOSPITALITY PROPERTIES TRUST	23.42	(4,269,466.00)			-0.04%
471109108	JAH	(102,900)	JARDEN	51.70	(5,319,930.00)			-0.05%
6642860	7201_JP	(12,983,600)	NISSAN MOTOR CO., LTD.	9.35	(121,379,781.32)			-1.22%
			OTHER		(10,586,021.55)			-0.11%
71714F104	PMC	(320,700)	PHARMERICA	14.24	(4,566,768.00)			-0.05%
	PBI	(401,000)	PITNEY BOWES INC.	10.64	(4,266,640.00)			-0.04%
73278L105	POOL	(143,000)	POOL	42.32	(6,051,760.00)			-0.06%
882681109	TXRH	(148,500)	TEXAS ROADHOUSE - A	16.80	(2,494,800.00)			-0.03%
92276F100	VTR	(61,800)	VENTAS	64.72	(3,999,696.00)			-0.04%
			TOTAL COMMON STOCK (SHORT):		**(250,414,485.47)**			**-2.52%**
		31,286,138	ENDEAVOUR FINANCIAL RESTORATION FUND, L.P.	112.8926	35,319,734.89			0.35%
		34,416,274	U.S. FARMING REALTY TRUST I, L.P.	100.172	34,475,469.99			0.35%
		7,782,827	U.S. FARMING REALTY TRUST II, L.P.	99.2233	7,722,377.78			0.08%
			TOTAL LIMITED PARTNERSHIPS:		**77,517,582.66**			**0.78%**
		51,459,597,000	JPY SWAPTION 02/27/14	0.00016	94,911.07			0.00%
		16,806,550,000	JPY PUT 09/09/14	0.02350	4,552,783.00			0.05%
		16,728,380,000	JPY PUT 09/09/14	0.02349	4,529,678.92			0.04%
		118,300,000	EUR CURRENCY 02/19/13 (118.3M EUR @ 1.31728)	(0.00210)	(250,796.00)			0.00%
		60,000,000	GBP CURRENCY 02/25/13 (60M GBP @ 1.62776)	0.00290	171,600.00			0.00%
		4,400,000,000	JPY CURRENCY 02/26/13 (4.4B JPY @ 82.289)	(4.46100)	2,749,626.03			0.03%
		194,350,000	JPY PUT 03/24/22 (194.35M JPY @ 0.07525)	0.07637	14,842,509.50			0.15%
			TOTAL DERIVATIVES/FUTURES		**26,690,312.52**			**0.27%**
			TOTAL OTHER SECURITIES		**104,207,895.18**			**1.05%**
681904AN8		6,959,000	OMNICARE INC. 3.75% 12/15/25	148.125	10,308,018.75	0.7900	10/1/2012	0.10%
63934EAL2		9,193,000	NAVISTAR INTERNATIONAL CORP. 3.00% 10/15/14	91.750	8,434,577.50	3.7500	12/15/2025	0.09%
			TOTAL PREFERRED STOCK & CONVERTIBLE BONDS:		**18,742,596.25**			**0.19%**
00208JAE8		136,713,000	ATP OIL AND GAS CORPORATION 11.875% 05/01/15	10.00000	13,671,300.00	11.8750	5/1/2015	0.14%
00208SAU2		23,845,000	ATP OIL & GAS CORPORATION DIP TERM LOAN 03/01/14	84.50000	20,149,025.00			0.20%
02635PTD5		3,486,000	SPRINGLEAF FINANCIAL SERVICES 5.85% 06/01/13	101.62500	3,542,647.50	5.8500	6/1/2013	0.04%
02635PTG8		5,100,000	SPRINGLEAF FINANCIAL SERVICES 5.75% 09/15/16	90.00000	4,590,000.00	5.7500	9/15/2016	0.05%
02635PTQ6		8,980,000	SPRINGLEAF FINANCIAL SERVICES 6.50% 09/15/17	88.50000	7,947,300.00	6.5000	9/15/2017	0.08%
02635PTS2		15,366,000	SPRINGLEAF FINANCIAL SERVICES 6.90% 12/15/17	90.00000	13,829,400.00	6.9000	12/15/2017	0.14%
EH8471748		3,539,051	COUNTRYWIDE HOLDINGS, LTD.10% 05/08/18-PIK12% REG S *	167.36470	5,923,122.09	10.0000	5/8/2018	0.06%
EH8451609		8,348,952	COUNTRYWIDE HOLDINGS, LTD.10% 05/08/18-PIK12% *	167.36470	13,973,198.47	10.0000	5/8/2018	0.14%
LN361056		194,034	FIRST DATA CORPORATION 09/24/14 TERM LOAN	99.52400	193,110.56		9/24/2014	0.00%
459745FG5		6,976,000	INTERNATIONAL LEASE FIIN. 5.875% 05/01/13	101.25000	7,063,200.00	5.8750	5/1/2013	0.07%
45974VB80		1,612,000	INTERNATIONAL LEASE FIIN. 6.625% 11/15/13	103.72200	1,671,998.64	6.6250	11/15/2013	0.02%
45974VB49		5,515,000	INTERNATIONAL LEASE FIIN. 5.65% 06/01/14	103.74200	5,721,371.30	5.6500	6/1/2014	0.06%
45031UAH4		20,649,000	ISTAR FINANCIAL INC. 5.70% 03/01/14	102.37500	21,139,413.75	5.7000	3/1/2014	0.21%
45031UAT8		6,912,000	ISTAR FINANCIAL INC. 6.05% 04/15/15	100.50000	6,946,560.00	6.0500	4/15/2015	0.07%
45031UAW1		18,785,000	ISTAR FINANCIAL INC. 5.875% 03/15/16	100.00000	18,785,000.00	5.8750	3/15/2016	0.19%
45031UBD2		4,950,000	ISTAR FINANCIAL INC. 5.85% 03/15/17	97.50000	4,826,250.00	5.8500	3/15/2017	0.05%
LN322669		6,016,977	KION GROUP 12/28/14 TERM LOAN B *	98.74800	5,941,644.78		12/28/2014	0.06%
LN322673		12,789,695	KION GROUP 12/28/15 TERM LOAN C *	99.23700	12,692,109.96		12/28/2015	0.13%
74971XAB3		15,230,000	GENON ENERGY, INC. 7.625% 06/15/14	107.00000	16,296,100.00	7.6250	6/15/2014	0.15%
			TOTAL BONDS & NOTES:		**184,902,752.05**			**1.86%**
			TOTAL CORPORATE BONDS		**203,645,348.30**			**2.05%**
786514BS7		(6,810,000)	SAFEWAY INC. 3.95% 08/15/20	99.93100	(6,805,301.10)	3.9500	8/15/2020	-0.07%
			TOTAL BONDS & NOTES (SHORT):		**(6,805,301.10)**			**-0.07%**

CUSIP/SEDOL	TICKER	SHARES	SECURITY	MKT PRICE	MKT VALUE	COUPON RATE	MATURITY DATE	% OF NET ASSET VALUE
31374TCT4		36,405	FNMA POOL #323282 7.5% 07/01/28	116.17900	42,295.08	7.5000	7/1/2028	0.00%
		18,329,829	MOB PARTICIPATION 9.75% 02/11/14	100.00000	18,329,829.20	9.7500	2/11/2014	0.19%
340780AA3		19,375,336	FLORIDA MORTGAGE RESOLUTION TRUST SERIES 2012-4A	36.78971	7,128,129.96			0.07%
854864AA3		9,910,861	STANWICH MORTGAGE LOAN TRUST SERIES 2009-2	44.72000	4,432,137.00	3.2400	2/15/2049	0.05%
85486AAA9		6,425,670	STANWICH MORTGAGE LOAN TRUST SERIES 2010-1	50.58000	3,250,103.97	13.6777	9/15/2047	0.03%
85486BAA7		33,512,488	STANWICH MORTGAGE LOAN TRUST SERIES 2010-2	50.42000	16,896,996.46	6.8747	2/28/2057	0.17%
85486TAA8		16,816,195	STANWICH MORTGAGE LOAN TRUST SERIES 2010-3	50.03000	8,413,142.24	11.6140	7/31/2038	0.08%
85486WAA1		25,547,318	STANWICH MORTGAGE LOAN TRUST SERIES 2010-4	46.73000	11,938,261.81	8.3633	8/31/2049	0.12%
85486XAA9		48,194,444	STANWICH MORTGAGE LOAN TRUST SERIES 2011-1	52.74290	25,419,147.65	7.2971	6/30/2039	0.26%
85486UAA5		30,731,410	STANWICH MORTGAGE LOAN TRUST SERIES 2011-2	53.52040	16,447,573.43	12.4475	9/15/2050	0.17%
85487GAA5		19,287,593	STANWICH MORTGAGE LOAN TRUST SERIES 2012-2	38.50390	7,426,475.43	1.4380	3/15/2047	0.07%
85487FAA7		35,164,189	STANWICH MORTGAGE LOAN TRUST SERIES 2012-4	44.40700	15,615,362.33			0.16%
			TOTAL MORTGAGE BACKED SECURITIES		**135,339,454.56**			**1.37%**
			TOTAL MARKET VALUE:		**$6,514,996,224.53**			**65.70%**
			CASH & EQUIVALENTS (NET OF LIABILITIES):		**3,401,700,591.46**			**34.30%**
			TOTAL NET ASSETS:		**$9,916,696,815.99**			**100.00%**

* Indicates foreign security.