Ryan: Good afternoon and thank you for joining us today. We would like to welcome you to the FPA U.S. Value Fund, Inc. conference call. My name is Ryan Leggio; I am an SVP and Product Specialist here at FPA. In just a moment you will hear from Greg Nathan, the Portfolio Manager of the Fund. As a reminder, Greg took on management of the Fund on September 1, 2015. It is my pleasure to introduce Greg Nathan. Over to you, Greg.

Greg: Thank you, Ryan for the introduction. The primary objective of the U.S. Value Fund is the growth of capital over the long term. My goal is to outperform the S&P 500 over full market cycles.

Here is a quick summary of my professional background and experience, as well as my alignment of interest with fellow shareholders. It should be noted that I increased my personal investment in the Fund during the last quarter and plan to further increase my investment throughout this year.

Now I'd like to walk you through my investment philosophy. The most important thing in investing is to avoid permanent capital impairment. Permanent capital impairment could result from investing in a business whose profitability is structurally declining, paying too high of a multiple for a company, investing in a company with too much financial leverage that can't make it through a tough business cycle without having to restructure. Thus I focus on finding quality companies at attractive valuations with low financial leverage. I want the portfolio to have an appropriate level of diversification by number of investments and industry exposure.

So how do I find quality companies at attractive valuations? I look for quality companies that appear misunderstood, as well as industries that are out of favor. I define "quality" as companies with strong and enduring competitive positions, growing businesses within growing industries. A growing industry is key because without it there will typically be poor earnings growth and investment returns—more on this in a minute. Lastly I want my companies to have high returns on capital and robust free cash flow generation. I prefer companies with good management. However, often the reason good businesses are offered at attractive prices is because of poor management. Therefore I will consider such companies provided there is not a structural impediment to replacing management and there's a large enough discount to my estimate of their intrinsic value. Bottom line, the quality of the business and valuation are *the* most important investment criteria.

Now I put this slide together to highlight how important it is to invest in a healthy industry. This shows the ten-year performance of eight hard-line retailers. There are four categories represented: drug stores, home improvement, office supplies, and electronics. Each company is the number one or number two player in its respective market. As you can see, the four companies that outperform the S&P 500 over this time period were CVS, Walgreens, Home Depot, and Lowes. These companies operate within secularly growing industries. Also the recession allowed these companies to further distance themselves from the competition. Additionally the two best performing companies—CVS and Home Depot—are number one players and benefited from good management, whereas Walgreens and Lowe's have been impacted by various management missteps over the years but still managed to outperform.

Conversely, the four companies that underperformed in the market… And they didn't just underperform; an investment in any of these four resulted in permanent capital impairment. This occurred because the electronics and office supplies industries experienced fundamental changes that impacted the level of demand for its products and how consumers purchase them. What's worth highlighting is that the delta between the returns of the winners compared to the losers increased dramatically over the last four years. This speaks to the importance of having a long-term view and time horizon for investing in high-quality companies and growing industries at cheap prices because ultimately time is on your side.

Let me walk you through the key parameters as to how the portfolio is constructed. The Fund's multi-cap strategy affords me the ability to invest wherever the best opportunities arise. At least 80% of the portfolio will be invested in U.S. companies. At the same time, I have the ability to make opportunistic foreign investments. Appropriate diversification—typically 20 to 30 companies; individual positions will not exceed 5% of total assets at the time of purchase. Approximate average position size of 3–4%. Normally fully invested—the reason for this is the portfolio is made up of what I believe are undervalued, high-quality companies that should compound in value over time. Cash will usually not exceed 10% of the portfolio.

Constructing a portfolio begins with idea generation. I find potential investments in multiple ways. Having researched and analyzed various companies and industries for over 15 years, I have a very good knowledge base to pull from. For example, I have done extensive research on the healthcare sector, and in particular the pharmaceutical supply chain. So when several high-quality companies in the sector sold off in the fourth quarter, I was able to quickly brush up on various companies, understand why these companies were out of favor, and confirm these investments provide a good risk-adjusted return for the portfolio.

I constantly read various publications, news articles, and buy-side as well as sell-side research. When I'm on vacation, this is also what I do for pleasure—something my wife absolutely loves. I think it's important for existing and potential shareholders to understand just how much of a passion I have for investing to find the next great company to put into the portfolio.

Once I have identified a potential investment, I conduct thorough research and analysis of the company and its respective industry. What is the current health and long-term growth rate of the industry? How competitive is the industry? Does the company have a strong, lasting competitive advantage? Is the company operating at an efficient level compared to its key competitors, or is there room for improvement? Does management have a good track record? How is management compensated, and by what metrics are then incentivized? How does management allocate capital? Lastly, after building realistic low-base and high-case scenarios, does an investment at current prices provide a good risk-adjusted return?

In summary, this investment process shows just how selective the criteria is before coming to make it into the portfolio. Out of approximately 3,000 companies that could be considered for investment, when factoring in my strict criteria of quality, valuation, and growth, there are usually not more than 100 companies that make the cut. This helps explain why the Fund concentrates its investments in only 20–30 companies, as so few companies are able to provide the upside potential I seek while minimizing the risk of permanent capital impairment.

Once the portfolio is constructed, there are a few reasons for selling an investment. One would be that the market has recognized the company's quality with a valuation re-rating such that estimated future returns from a new price are projected to be below average. These are what I call "happy sales." Another is that the investment thesis is proven wrong. In this case, I will not rationalize holding an investment even if the price or valuation has declined. These are what I like to call "unhappy sales." Lastly, a superior opportunity becomes available, and these are what I like to call "thankful sales."

As you can see on this slide, this is a list of the various risk management tools I put in place to help achieve the Fund's objective of long-term growth of capital. I've already touched on several of these points, so I don't want to be redundant. One thing we're keeping in mind is that I take a long-term view on the companies and their respective industries when considering an investment. A byproduct of this should be relatively low portfolio turnover. However, with the recent volatility in the markets, what isn't cheap one day can quickly become a good value. Since my mindset is always "how can I improve the portfolio each and every day," when there is an opportunity that presents itself, I will not hesitate to act.

After transitioning the portfolio to the U.S. Value Strategy throughout last September, I conducted my first full quarter as Portfolio Management in Q4, '15. Performance of the Fund was respectable. While the Fund net fees and expenses underperformed the S&P 500 by 90 basis points, it outperformed its Morningstar Large Blend category peer group by 58 basis points. The average funds in the Morningstar Large Blend peer group were also funds that typically benchmark themselves to the S&P 500. The Fund had a little more than 10% of cash and equivalents throughout the quarter. Thus cash-on-cash gross returns were generally in line with the S&P once you consider the performance within the context of the kind of market we experienced in 2015.

Last year Facebook, Amazon, Netflix, and Google—otherwise known as FANG—experienced a weighted average return of over 65%. While the S&P 500 generated a total return of 1.4%, the S&P 500 ex FANG was down 2.8% last year. The underperformance of value funds compared to growth carried on for the first nine months of the year into the fourth quarter. In Q4 large cap growth was up 6.7% compared to 4.7% for large cap value. FANG made up 21.1% of the S&P's return in Q4 despite only representing 6.1% of the Index's weighting. You can hopefully understand, given that I manage a U.S. Value equity strategy, I don't ow any FANG or their super growth brethren during the quarter. So that is the context within which I say performance was respectable.

Now to be clear, while I will review the Fund's performance on a quarterly basis, I encourage you to judge performance over a full market cycle, which is typically five to seven years and, at a minimum, three years. The reality is, in any given quarter or a year, my philosophy of value investing can be out of favor. For example witness the dot-com bubbles from the late 90s to the early 2000s and most recently last year's FANG performance. But by buying leading high-quality companies in growing industries at cheap prices typically run by good managers, this should product above average returns over the long run while minimizing the risk of permanent capital impairment. Again, refer back to the hard-line retail slide where you can see that the return divergence between the winners, losers, and S&P 500 expands over time.

Here is the portfolio statistics as of December 31st. As you can see, U.S. Value's portfolio not only trades a materially cheaper valuation compared to the market, but it's expected to grow faster. While statistics such as ROE show similar quality, based on my analysis, I would argue the portfolio is higher quality than the market and is less financially levered on a net debt to EBITA basis. The Fund's estimated discount to its intrinsic value declined from 29% at the end of Q3 to 27% at the end of Q4. Despite a greater than 6% return in Q4, the Fund's discount narrowed by just 2%, as I was able to make various positive changes to the portfolio throughout the quarter. Lastly, I continued to find the most value in large cap stocks, which explains why the portfolio's weighted average market cap was approximately 44 billion at quarter end.

The Fund's industry exposures changed somewhat over the past quarter. During the first half of the fourth quarter, the media sector along with various consumer discretionary holdings strengthened while healthcare weakened. I reduced the portfolio's media exposure from approximately 20% to 16% throughout October and November. But as the media sector weakened in December, I brought exposure back up to approximate 19%. Overall consumer discretionary exposure came down a bit from 41.7% to 39%. Richemont and Ralph Lauren were sold, while Twenty First Century Fox, CBS, and BMW position sizes were reduced—all done with nice gains. Additionally, I made an investment in Whirlpool, the largest U.S. appliance manufacturer.

The Fund's exposure to healthcare increased from 14.3% at the end of Q3 to 25.3% at the end of Q4. As you can see, the healthcare sector was particularly weak throughout the first half of the quarter. A combination of Hillary Clinton's tweets regarding pharmaceutical pricing and Valeant's issues were key factors impacting the sector's performance. In my opinion, there were several proverbial babies being thrown out with the bathwater. I increased the Fund's investment in McKesson, the largest U.S. pharmaceutical drug distributor, and took a position in its competitor, Cardinal Health, the third largest player. I also increased the Fund's investment in Allergan Plc prior to its announced merger with Pfizer. Finally, I added Anthem and Abbvie to the portfolio.

Regarding the portfolio's holdings, I'd like to point out a few highlights. All companies operate within secularly growing industries. All companies have a strong position within their respective industry due to various competitive advantages. A majority of these companies are leaders in their respective industry, with nine of these 24 companies operating as the number one players and 17 being in the top three.

With that, I'd like to turn it back over to Ryan for Q&A.

Ryan: Thank you, Greg. At this time we will pause for a moment so listeners can have a chance to submit their questions. On your screen you should be able to see a box where you can submit questions, and feel free to submit those now. We'll pause for just one moment. Thanks.

Okay, the first question we received ahead of time is: will the Fund invest in "hard assets"? First, Greg, maybe if you could explain what those are and then answer the question. Thank you.

Greg: Sure. First, let me define hard assets, which are investments such as oil, natural gas, gold, silver, farmland, natural colored diamonds, and commercial real estate. As far as whether or not I like them, it all comes down to the quality of the asset and the price I'm paying for it. So for most investments, if you get a cheap enough price, you can have a good return. But as far as the U.S. Value Fund in concerned, please keep in mind this is an equity-only fund, which would rule out the ability to consider some of these hard assets. Additionally, since the quality of business is the most important investment factor, followed by valuation, I have generally shied away from sectors that do not earn their cost of capital over full market cycles, such as energy.

Ryan: Great. Thanks, Greg. The next question we have is: could we put the slide back up with the Fund's holdings? So we'll do that right now while Greg answers some additional questions in case there are some additional questions regarding the Fund's holdings. You should see the Fund's holdings now on your screen.

The next question we'll go to is: do you have a maximum allocation to an industry exposure?

Greg: So the way we define it here is by subsector. So for example, media would be a subsector within consumer discretionary, and the maximum threshold for a subsector is 25%.

Ryan: Great. Thanks, Greg. Question on energy: are you seeing anything interesting in the energy sector, and maybe if you could kind of broaden that… and how you think about quality in relation to energy as well?

Greg: Sure. So as in my earlier comments, I've generally shied away from industries that do not ear its cost of capital over time. That being said, I will consider anything provided it's a quality company that I have a good idea what that business is going to look like in the future and the corresponding earnings. So anything's fair game, but like I said there are reasons why I shy away from certain sectors.

Ryan: Great. Thanks. And someone has asked about our sector exposure compared to the S&P 500. We're happy to show that if flip back to the slide. And again if there are any additional questions on sector exposure versus the S&P, feel free to submit those also in terms of holdings.

Greg: And just to add on that, so for example if you look at this slide and you look at exposures, so consumer staples is a sector where there are definitely high-quality companies. Unfortunately the valuations of these companies are just too high at this point for me to consider it. Energy is pretty much the opposite. There's obviously a lot of companies that are out of favor, trading at seemingly cheap prices, but again a lot of them don't meet my quality criteria. So I will consider any industry, but this is really where you can see the exposure differences. And obviously being overweight consumer discretionary and healthcare compared to the S&P, in line with industrials, underweight in financials, and then basically no exposure in the rest of the industries.

Ryan: Next question we have is: is the S&P 500 the best benchmark? Do you consider yourself a large cap value fund, or is your exposure a blend of mid and large? Could the Fund be all large caps and all mid caps theoretically? And so maybe Greg and I can both tackle this, and then if…

Greg, if you have some additional comments, let me know.

So I'll take the last question first. So could the Fund be all in large caps and all in mid cap theoretically? And the answer is yes. Greg, maybe you can talk about how you're thinking about that.

Greg: Sure. So the great thing about this Strategy being a multi-cap strategy is it allows me to allocate capital to wherever the best opportunities arise. And so it's basically anything over 2 billion of market cap can be considered for this Fund. So if you look at the Fund's various positions today, which we'll throw up here in a second, what you'll notice is that a little bit over 10% of the portfolio is in small caps. What I consider small cap is in the 2–5 billion range. And the rest of the portfolio that's invested is in large caps, and honestly that's where I'm finding more value. Now if something that's very compelling comes up in the small to mid cap space, great. For me, I'm agnostic in terms of market cap, and it just so happens that where I'm finding most value today is in large caps.

Ryan: And then to answer the other questions—and hopefully this is evident—so we don't consider the Fund necessarily a large cap fund. As Greg's mentioned a couple times, we consider it more of a multi-cap fund, and our exposure can be in mid and larger capitalization stocks.

And then in terms of the S&P 500, we do believe that that's the appropriate benchmark for the Fund based generally upon two factors. (1) as Greg mentioned on an earlier slide, more than 80% of the Fund's assets will generally be in U.S.-domiciled companies, and obviously the S&P 500 is made of U.S.-domiciled companies. And then secondly, generally speaking, with the 2-billion-plus market cap, the S&P 500 has many companies that some indices consider mid caps and large caps. And so we hope that answers that question. If there's any other questions on this, feel free to email us, and we'd be happy to answer it.

Ryan: The other question we've received is: what do you think about management at American Express? And beyond valuation, what would need to happen for you to size the position up?

Greg: Sure. So management at American Express is, to be polite, poor. For me, I look at American Express… it's a very high-quality business at what is seemingly an attractive valuation. The biggest thing that has held me back from sizing up is management, and at this point there is no clear path to replacing management. They can be replaced, but so far he's got the support of Berkshire Hathaway, which is one of the larger shareholders.

And I don't know if you read recently, but Jeff Ubben of ValueAct was temporarily involved in American Express and shared his ideas in terms of how to create value. The management rebuffed him, and so he exited. And so this is a situation where again I go back to high-quality business at a cheap price, growing industry. The amount of transactions going from cash-based to cashless will only increase over time—not just in the U.S., but even more so globally. However, management is a real issue here and had not done a great job over the past number of years.

Ryan: Thanks, Greg. We received one question about some of our activity since the beginning of the year, and unfortunately we're not able to comment on any activity that we've done since the beginning of the year.

At this point, those are most of the questions. We're going to pause for just another ten seconds in case there are some additional questions that any listeners might have.

And at that point, those are all the questions that we're seeing at this time. I think we might have one or two additional outstanding, which we're happy to follow up with after the call. Greg, thank you very much, and thank you, our listeners, for your participation on today's fourth quarter 2015 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 within a few days at fpafunds.com. We urge you to visit the website for additional information on the Fund, such as complete portfolio holdings, historical returns, and after-tax returns.

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

Please visit fpafunds.com for future webcast information, including replays. We will post the time and date of the prospective calls towards the end of each quarter, and expect the calls to be held approximately three to four weeks following each quarter's end. If you did not receive an invitation via email for today's webcast and would like to receive them in the future, please email is at crm@fpafunds.com. We hope that our quarterly commentaries, webcasts, and special commentaries will continue to keep you appropriately informed on the Strategy.

We do want to make sure that you understand that the views expressed on this call are as of today, January 27th, 2016, and are subject to change based on market and other conditions. These views may differ from other portfolio managers and analysts of the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Any mention of individual securities or sectors 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. The information provided does not constitute and should not be construed as an offer or solicitation with respect to any securities, products, or services discussed.

Past performance is not a guarantee of future results. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the security examples discussed. Any statistics have been obtained from sources believed to be reliable, but their accuracy and completeness cannot be guaranteed.

You may request a prospectus directly from the Fund’s distributor, UMB Distribution Services LLC, or from our website, fpafunds.com. Please read the prospectus and the Fund’s policy statement carefully before investing. FPA U.S. Value Fund Incorporated is offered by UMB Distribution Services LLC.

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

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