Third Avenue Focused Credit Fund Transcript

September 15, 2016 | Edited for Clarity

BETTY LIN BLABEY: Good afternoon. My name is Betty Lin Blabey, Director of Marketing & Communications at Third Avenue and I'd like to welcome you to the quarterly update call for the Third Avenue Focused Credit Fund. We appreciate you taking the time to listen.

We're joined by Lead Portfolio Manager, Tom Lapointe, who will provide an update on the Fund and its current positioning.

The information disclosed on this call is intended for Focused Credit Fund shareholders and their advisors and is not for attribution or for distribution to third parties. If there are members of the press on the call, please exit at this time.

As a reminder, the Third Avenue Focused Credit Fund is currently in liquidation and is not available for purchase or re-investment. Also, we have launched a new website specifically for Shareholders at www.focusedcreditfund.com Information on the liquidation of the Fund, daily pricing, and other announcements can be found at the new website.

A transcript of this call will be available shortly on the new credit website. If you have any questions, you can email creditupdates@thirdave.com or call our client services desk at 212.906.1160.

Thank you for your attention. And I'm happy to turn the call over to Tom Lapointe.

TOM LAPOINTE: Thank you for taking the time to get on this call, as has been the case for past calls we have several hundred people on the call and I want to be respectful of your time.

We will limit this call to 20-30 minutes to address some of the most frequently asked questions and review our top holdings.

1. You have almost 25% cash in the Fund. When will I be getting my next distribution, and how much will it be?

   A - We do not anticipate making a distribution before October 31st. Our next measurement date for passing Subchapter M is October 31st. As a refresher on Subchapter M, '40 Act funds, like FCF, have to comply with certain asset diversification tests. Cash is a diversifying asset and by distributing it, the Fund becomes more concentrated and thus increasing the risk of not being able to comply with the Subchapter M diversification tests come the measurement date. We've written about Subchapter M in our last two letters which you can read on FocusedCreditFund.com.

   We expect to make a cash distribution in the 1st half of November. We will provide you with more details as we approach that date.

2. Can we get an update on the Houlihan process?

A- As has been reported in the *Wall Street Journal* and other publications, we have hired investing banking firm Houlihan Lokey to run a process and help us determine what solutions might be available. Ultimately, if we are able to identify a viable alternative, we may recommend a transaction to the Fund's Board (subject to regulatory approval) and shareholders will decide. We expect this process to be completed by year-end but we will be making announcements and update you as we progress. In the meantime, we are continuing with the orderly liquidation of the portfolio, including working on our larger post-reorganization investments to unlock the value we believe is embedded in those companies.

3. The High Yield market is up 12-13% year to date, why has the Fund not done better?

   A- Due to the concentrated nature of the Fund, the top 10 names drive performance. Realization of the intrinsic value of most of these positions is likely to be event-driven and we do not expect their valuations to correlate with the general HY market. We have had some good stories, New Enterprise Stone and Lime, was a 5% position and was in the 80's when we closed the Fund, we recently sold the last of the position at about 99 and have clipped an 11% coupon in the meantime. IHeart has rebounded from High 20's to $40 plus clipping a 14% coupon. But those gains have been offset by mark downs on names like Affinion, Corporate Risk and Long view Power.

4. How long will it take to liquidate the remaining holdings in the portfolio?

   A- We continue with the orderly liquidation of the portfolio and sell securities where appropriate. The larger and less liquid private equity type investments will be realized as corporate events take place, although we will look for appropriate sales.

5. Can you talk about any progress you are having realizing value with the larger investments?

   A- We are on the board on most of these investments and the board needs to act in a fiduciary duty to all shareholders. We have material nonpublic information on many of these companies and in any case would not be able to disclose any transactions that might be coming or their timing. While we cannot comment specifically, it is in shareholders' interest to maximize the value of these companies for all stakeholder owners. We believe there is additional embedded value in the portfolio that we are working to unlock.

6. Can you address recent departures?

A- As we have done from the start, we want to keep shareholders informed regarding personnel changes. One of our analysts, left to pursue other opportunities after the quarter end. We wish him well. As we sell down positions, we have had and will have fewer names that need to be covered, so while we will miss our colleague, we are confident that we have adequate support to manage the remaining investments in the portfolio. We will continue to balance the needs of the portfolio and our staffing levels.

Next I will provide a short update from our letter on some of our largest investments and our outlook for them.

Corporate Risk Holdings (formerly Altegrity): 16.6% weight

The Fund owns the 2nd lien debt and about 32% of the equity in Corporate Risk Holdings ("CRH"), and we have a seat on the board. We took this company through an in-court restructuring that started in

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February of 2015, and we are now starting to see meaningful improvements in the company's financials and progress in realizing the value of the assets.

As we discussed in the previous letter, each of CRH's three businesses is doing well. Each segment is in the best condition since we invested. The company was able to resolve its potential government litigation liabilities through a bankruptcy court approved settlement. The company's numbers are clean (no earning adjustments), and each of the segments is growing. Our sum-of-the-parts valuation of the assets puts the stock at $20-27 vs. the current market of $10. Those valuations are still significantly below what the previous owner paid for the business and less than the par amount of debt outstanding prior to the restructuring.

One of the three segments, Kroll Ontrack, has recovered most of the earnings it lost through the bankruptcy process and prior mismanagement. Importantly, recent comparable transactions suggest the business has value at a level accretive to all stakeholders. This is due largely to a strong management team, hard work from employees and customers getting engaged.

A second segment, HireRight, continues to be strong. This specific segment's EBITDA has increased about 50% since the business was last rumored to be up for sale in mid-2013. We believe that there are real potential buyers who correctly believe that HireRight is their chance to be the leader in an industry that is otherwise fragmented. The Company has taken several steps to invest significantly in security and user experience in a way that will meaningfully help HireRight's customers – its most important asset.

Ideal Standard: 14.3% weight

We own approximately 24% of the equity and take-back debt. We are on the board that also has designees from the two other large equity holders. As we have written in the past, Ideal has been a turnaround cost-cutting story that we believe is now starting to become a growth story. EBITDA has nearly tripled since our original investment three years ago.

There are two important data points to highlight. First, for the same European business we own today, Bain paid $1.6 billion. FCF shareholders own it at 1/3 of that cost. Of course, the business has suffered somewhat since then. Revenue is down 24% since 2008, primarily due to the financial crisis. But revenue is up substantially from the trough and the company is re-energized with new leadership (CEO, CFO, and sales teams in the last year). Now the business is beginning to show real growth and market share gains. Second, it has organically built an important business in the Middle East and North Africa region. It has a proven growth track record over the last couple years and bright future prospects which we believe merits an above market multiple.

It is likely that the value of this investment will take longer than twelve months to realize even as results have improved. The company still carries high levels of debt and high coupons, but improving results and favorable capital markets can help.

Liberty Tire Recycling: 11.0% weight

The Fund owns 1st lien bank debt (4% weight), 2nd lien bonds (7% weight) and 40% of the equity (0% weight). As a reminder, this is an upper middle market company with real barriers to entry and has a national presence, recycling 40% of all tires in this country. We participated in an out of court restructuring of this company's debt approximately eighteen months ago and have a representative on the board. The company has been performing in line with expectations and is growing cash flows from

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operations enough to offset declines in scrap metal prices (a residual product from recycling tires). While we own 40% of the equity it has zero value in the Fund at this time. The bonds and the bank loans are at a discount to par. The potential for the returns for this investment are hard to quantify. If the company continues to improve its operations or scrap steel prices rebound to their 5-year average, the equity could add significant value to the portfolio. If not, the debt remains at a discount and pays cash and PIK payments of 10-11%.

I'd like to end with a positive story that I referred to before on New Enterprise Stone & Lime.

New Enterprise Stone and Lime: had been a 5% weight and now Zero %

These bonds dropped from 80 to 50-60 at the beginning of the year but have steadily rebounded. We sold all of our holdings getting out of the last block at about 99 cents post the quarter end. The Fund also received an 11% coupon along the way.

Thank you for your time and we look forward to talking with you next quarter.

If you have any additional questions, please reach out to a Third Avenue client service representative.

And please visit our website FocusedCreditFund.com for the most recently updated information.