The Phaeacian Accent International Value Fund and the Phaeacian Global Value Fund (the “Phaeacian Funds”) were formerly known as the FPA International Value Fund and the FPA Paramount Fund, Inc. (the “Former Funds”), respectively, until their reorganization in October 2020. This commentary was written by the portfolio managers of the Phaeacian Funds while they were the portfolio managers of the Former Funds and employees of the Former Funds’ investment adviser. The Former Funds are no longer available for sale and these commentaries are provided for informational purposes only. The provision of these commentaries does not constitute or imply an endorsement of the Phaeacian Funds by the Former Funds’ investment adviser, and the views and opinions expressed in these commentaries are those of the portfolio managers and do not state or reflect those of the Former Funds’ investment adviser. Past performance is no guarantee, nor is it indicative, of future results. This is not an offer for sale or recommendation of any security, product or services discussed and neither does it provide investment advice.

Dear fellow shareholders,

During the first quarter of 2014, the Fund rose 1.04% compared to the MSCI All Country World Index's (ex-US) (Net) (the "Index") gain of 0.51%. Since inception on December 1, 2011, the Fund has appreciated 18.83% annualized versus 13.31% for the Index. At the end of the quarter, we were circa 62% invested (versus 63% at December 31, 2013). Over the past three months and year-to-date, our cash stake averaged in excess of 38%. Since inception our average cash holding has been 35%, growing steadily from low teens over the past two years.

Temper tantrum markets

Having underperformed relative to the Index for the first time since the inception of the Strategy during the fourth quarter 2013, we had warned at year-end of the likelihood of sustained, possibly more pronounced, relative underperformance if the rally in market prices were to continue. By February 4th, though, it looked like things had turned, and that we were going to write this quarter about the virtues of holding cash when opportunities to invest in quality businesses at a discount to intrinsic value[1] are scarce. During that first half of the quarter, the Index was down 6.50%. In contrast, our Fund was down 3.32%. We were able to deploy close to 10% of our cash during this correction.

These few short weeks of down prices were too much to bear for the Federal Reserve though. They initiated a series of remarks emphasizing continuity in their policy of strong monetary support. Coincidentally, the markets bounced back. The Index returned a positive 7.52% over the remainder of the quarter. The Fund also performed positively, and ultimately ended the period ahead of the market. We don't mind being proven wrong, but we need to keep reminding shareholders that we may experience short-term under-performance relative to the Index in a sustained rally. The fact that something is overpriced doesn't mean it will fall right away. Prices could continue to run up for some time. What we think the quarter clearly illustrated, albeit briefly, is that volatility favors us. We believe we are well-positioned to withstand a correction, and to take advantage of declining prices. In the long run, we think this will help us deliver superior returns.

What the quarter also showed is the market addiction to games. We mean these video games that come with a pair of Oculus goggles and immerse players in virtual reality. Mentions of business fundamentals and how valuations tie back to these fundamentals have disappeared. Prices are set on the expectation that they will go up further, which is a syllogism to say investors no longer care what they pay for stocks, as they expect to sell later at a higher price. This is how investors need to play now to stay in the game. As fathers, we know well what too much video game playing does to a child. The idea of being pulled away from the experience is unbearable, and turning the game off inevitably triggers a temper tantrum of sorts. As parents, we find that it's not only heartbreaking to turn it off, but also goes against our self-interest. Put it back on and everything will be good again. Of course, no child can forever hide behind goggles. This holds true for capital markets too. We suspect the Federal Reserve ultimately knows what to do, but it is proving to be a rather weak parent.

Shameless investing

We are not sure why the lights of discipline and skepticism ultimately fade away. Maybe some people lose interest. Maybe there is too much else at stake for others. While we feel many have given up, we

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[1] Our estimate of the actual value of a company or an asset based on our underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors.

never tire of repeating the same sound principles. We also worry less about looking wrong than we do about what could happen to our own capital, which is almost exclusively invested in the Fund, if we deployed it into poorly run corporations, sub-standard quality businesses, financially stretched companies, or if we purchased stocks at no or negative discount to intrinsic value. Our personal convictions at this stage are simple. First, capital markets are not a measure of wealth. They are a place where one can go to buy and sell things at a given price. Wealth is not necessarily created because a portfolio rises, just as it may not fall with prices coming down. A stock trading at an even greater premium to fair value does not mean an appreciation of wealth. Except for those who have the ability to time the markets (we believe few - if any - actually can) and will sell before the stock reverses to fair value or less, it simply means a larger, rather likely, permanent loss. Fortunately, the press now provides guides on "how to spot a bubble". According to experts, the bubble label sometimes gets slapped on assets too quickly. One should distinguish between overinflated markets, and ones merely overpriced. Price, they say, can be not cheap, and not in a bubble. It seems there would be a fine balance in overpaying. By overpaying a little, one could expect a generally lower return, but by overpaying some more, one could see values plummet by 50% or more. We'd be happy to give these odds to anyone who actually believes this is a good idea.

Second, current valuations, for the most part, reflect both artificially inflated multiples (combining low interest rates and muted inflation expectations), and unrealistic forecasts of profit growth, at least at either flat or rising levels of return on capital. When we go back and read commentaries by renowned investors prior to many market corrections, they often talk about being 7 or so years into a market cycle, or having 12 to 13 up years in 15. Some also highlight the growing disconnect between market capitalization and GDP. These things sound rather familiar today. That means the prospect of market returns from this point on over a cycle is presumably poor. We note that investing in the Index in October 2007 would show a negative return today. Even for long-term investors, buying when things are cheap is critical. We believe our key insight into investing is that we have well-documented estimates of what many companies are worth. Our extensive research helps us determine when they happen to be cheap, or expensive, so we can buy or sell accordingly. In contrast, non-professional or less disciplined investors will tend to follow stocks that have done well, rather than ones that will do well. They typically load up on the highs and sell on the lows. To this point, we have seen multiple recent reports that small investors are now aggressively piling into rising stocks. Sadly, it happens every time.

Lastly, while we cannot say when or why, we are certain that markets will present us with an opportunity to buy good businesses at low prices at some point. Based on these principles, we are indifferent as to how our portfolio develops in price relative to the Index. We have no interest in moving away from cash to become owners of businesses with the risks that this entails at current prices. We prefer to repay our old car loans which carry now seemingly absurd rates of over 6%, and to hold cash while patiently waiting for future opportunities. We think it boils down to what one seeks to accomplish. We don't care to blend in, talk up a pipeline of unattractive ideas, and enjoy the cycle. What we want is to invest in the few situations we find with likely asymmetrical outcomes. These are situations with little chance of losing a small amount of money versus the prospect of large returns. Chances are we'll sometimes lose face, but that's the kind of shameless investing that we believe allows us to compound value over time.

Key performers

Our best performing holding in the quarter was **Taiwan Semiconductor Manufacturing Company**, or TSMC (up 14.79% in US currency). TSMC is a company that we have followed for many years, and added to the portfolio last quarter. Based in Taiwan, TSMC is one of the largest semiconductor manufacturers in the world. It works with leading semiconductor design houses like Qualcomm, NVidia, and Broadcom. The company employs a unique business model serving as a pure-play foundry that manufactures for customers, protects their intellectual property, and does not compete against them.

What piqued our interest about TSMC was its increasing importance in the semiconductor value chain. As semiconductor manufacturing increases in complexity, so have the costs, skills, and experience required to be a competitive foundry. Over the past few years, the company made large scale investments in leading edge manufacturing capacity. We believe this investment will not harm the economics of their business, but should instead generate healthy returns and widen the lead they already possess over competitors. With its combination of strong execution, differentiated business model, thoughtful capital allocation, and healthy returns, TSMC is the type of high quality, well-run company that we look for. Because of this, we remain interested in owning the company's stock, as long as we can continue to do so at a discount to our estimate of its intrinsic value.

Our worst performing holding in the quarter was **Vesuvius** (down 14.02% in US currency). The company is an offspring of Cookson which we had added to the portfolio towards the end of 2012. We commented on it in the past. Based in the UK, it is the world's leading manufacturer of metal casting production equipment (filters, feeding systems, coating products) and steel flow control products (such as pipes and valves). These products are short-lived consumables tailored to customer needs and account for a small portion of the end product costs, yet reduce defects and improve yields. Vesuvius is a clear leader with a market share in excess of 50% in both products. It generates good margins and operating returns on capital employed in excess of 20%. The current CEO, the former division head, is an industry veteran. He has shown a strong focus on operating efficiency and sound financial discipline, and has been refocusing the group on its core businesses. The balance sheet is healthy with leverage at around 1x net debt to EBITDA[2], and the business averages high cash generation over time. While the stock had been a strong contributor to performance historically, we had reduced our exposure according to the lower margin of safety. We had around 30bps invested in this holding at the beginning of the period. Our investment thesis remains intact however, so that we could be interested in increasing our stake again, if the price fell below our required discount to intrinsic value.

Quarter activity review

While we were able to take advantage of the correction this quarter to a degree, it was achieved by investing more into the most compelling of our existing portfolio holdings. Several of them were hit in the downturn, so consistent with our valuation discipline, we added to these positions. However, the correction was short-lived and disproportionality impacted markets where valuations had had significant runs in the prior months or years, such as Japan and several emerging markets. It didn't allow us to invest in companies that require additional research work, and it didn't provide us with opportunities to invest in any of our "Best of Breed" companies either. As a reminder, our "Best of Breed" companies are the companies that we know best. They are companies we have researched, priced, and often owned in the past. Our assessment of intrinsic value per share for these companies is reasonably up-to-date, so that we could typically move quickly if the stock of a company on the list fell within our buy range. On a positive note, the brief market correction has made certain regions increasingly more attractive. We have travelled repeatedly to these markets in order to have a more complete vision of the opportunity set that could be presented to us if things continued to move in the right direction.

While we were unable to add new names to the portfolio this past quarter, we sold out of two positions: **Adecco** and **Interpump**. Adecco is a company that we have known for years and owned since the Fund's inception on December 1, 2011. Based in Switzerland, Adecco is a world leading provider of temporary staffing services. Despite significant exposure to the French and US markets, it's a true global business with a presence in more than 70 countries. It's naturally positioned to benefit from the strong continued underlying increase in penetration of temporary staffing in many countries around the world,

[2] Earnings Before Interest, Depreciation, and Amortization.

and particularly in the US in recent years. Operating profit margins are small in this business, with a peak typically below 5%, but they've proven to be relatively stable. They hit a trough of 3% back in 2009. This was a year of dramatic economic decline when revenues experienced a 26% decline however. Furthermore, with limited working capital and tangible assets required for the business to operate, Adecco has achieved a pitch-perfect cash conversion rate, and delivered operating returns on capital in excess of 100%. The balance sheet is conservatively managed with leverage at less than 1x net debt to EBITDA. Lastly, management has consistently demonstrated strong financial discipline, and judiciously deployed capital through value accretive acquisitions. Since we first added Adecco to the portfolio in December, 2011, the stock returned 105.73% (in US currency), and no longer offered an adequate margin of safety[3].

Interpump was added to the portfolio in the first quarter 2013 following the departure of long-standing Chairman Giovanni Cavallini and subsequent weakness in the share price. We commented on the company in the second quarter 2013. Based in Italy, Interpump is the world's largest manufacturer of high and very high pressure pumps. It's also the global leader in power take-offs for vocational trucks and off-highway vehicles. In each business, the group enjoys dominant positions with shares in excess of 40%. They operate in niche markets where they face few competitors of quality and scale, while they sell to a fragmented base of small wholesalers and assemblers. Management has a long history of running the business well. They've consistently generated margins in the high teens and operating returns on capital employed in the twenties. Cash flow generation has been strong, while the balance sheet is healthy with leverage at less than 1x net debt to EBITDA. Since we added Interpump to the portfolio, the stock returned 61.23% (in US currency), and no longer offered an appropriate margin of safety. Both Adecco and Interpump are high quality companies that we will monitor for opportunities to invest in them again.

On the research front, we conducted due diligence on a few selected names that we believed offered enough of a discount to intrinsic value to warrant the allocation of time and resources. We note, however that we now seldom come across names that appear to offer a discount in excess of 30% based on our preliminary assessment. As mentioned in past commentaries, we are allocating more time to refining our "Best of Breed" list, which we consider a critical tool, not only in this environment, but also in case of a market correction. We're reviewing selections from prior research trips for names that could have fallen through the cracks. This process recently helped us identify a possible new idea that seems promising. Lastly, we continue to travel overseas with a view to broaden and consolidate our knowledge of high quality companies around the world, as well as learn of firms we would have missed in past visits, as in the case of our recent trip to Brazil. Along with Brazil, we visited Columbia, Mexico, and Peru this quarter. We are also currently conducting a trip in Europe including France, the Netherlands, Germany, Austria, and Poland.

Portfolio profile

With the sale of Adecco and Interpump, we had 21 companies in the portfolio at the end of the quarter. This remains below the 25 to 35 stocks that we would expect to own at any given point in time. It is a reflection however of the challenging market environment we are faced with as absolute value investors. Thanks to the brief market correction in the period, we were able to improve modestly the weighted average discount to intrinsic value of our holdings. Nonetheless, it remains relatively low at 26% (up from 24% at December 31, 2013).

As our number of holdings diminishes, we are reminded of what is at the core of our investment practice. Often in discussions we sense that outsiders, including sometimes individuals who have built their own successful businesses, believe we're engaged in some sort of gambling where daily market prices reveal

[3] Buying with a "margin of safety" is when a security is purchased for less than its estimated value. This helps protect against permanent 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.

whether we have won or lost money. They're mistaken. Much like many private business owners, we hold a small, diligently selected collection of permanent, productive assets, with the ability to sustainably generate returns in excess of the true cost of capital (no matter what the Federal Reserve dictates). Unlike private market participants however, we can deal daily with a great numbers of potentially irrational sellers. The way we invest is by building and monitoring a limited list of companies we can purchase or add to opportunistically, as capital market participants temporarily lose track of what matters, and cease to consider a business worth based on its long-term cash flow generation power.

The geographic profile of the Fund changed little over the course of the period. We remain primarily geared towards larger market cap companies, many of which are domiciled in Europe. This is a reflection of where we find compelling opportunities, as our approach is agnostic to size or geography. Many of our holdings are global companies and thus generate meaningful portions of their cash flows outside of their home country, which makes domicile of limited relevance. What is more important is where business value is created, i.e. where cash flow is generated. Similarly, we measure our currency exposure based on what currency the portfolio's cash flows are denominated, and hedge defensively any currency that's a significant outlier, as long as it's economical to do so. As we stand, we hedge approximately half our exposure to the Euro. We're reducing our hedging of the British Pound, as it now accounts for a smaller portion of our portfolio's cash flows.

We continue to have no exposure to companies based in Japan, where we find that management teams typically lack the financial discipline we look for, and where valuations remain unattractive. We note that multiple reports have come out recently which argue that Abenomics has failed to boost growth in things other than food and energy prices, and that the market rally was likely little more than a trading event triggered by political rhetoric and currency speculation. Manufactured increases in asset prices do little for a population of cash hoarders. Inflation and tax increases do hurt them however. These are things we warned about over a year ago. We would have preferred to be part of that rally, but it is not how we invest. While some emerging markets appear increasingly interesting, we still have no exposure to companies based in these regions, outside of our investment in TSMC. Similarly, we continue to have no exposure to banks. These companies typically do not lend themselves well to research and appraisal, and they tend to generate mediocre returns despite high levels of financial leverage. As such, they often are a poor fit for our investment strategy.

Beyond that, we continue to be fairly diversified while naturally gravitating towards businesses that are highly cash generative and less capital intensive. These include service type businesses, but also robust industrial companies. With investments in SAP and TSMC, our exposure to technology is notable. However, these investments reflect the strengths of the underlying fundamentals, rather than any calls on technological developments or market cycles. In general, we find that technology-based companies are difficult to value, as we typically struggle to assess the long-term sustainability of their business models.

Long-term optimism

In general terms, our perception of the overall macro framework also remains broadly unchanged. We continue to see positive developments in the US, and encouraging signs of improvements in Europe. Structurally however, we remain concerned with high levels of financial leverage, in particular sovereign debt, weak financial institutions, most notably in Europe, imbalances in developing countries, specifically in China, the likelihood of tax increases, the threat of rampant inflation driven by fiscal and monetary policies, and the continued increases in the size, scope, and cost of the state in many countries. It is worrisome how governments encroach into more and more areas of the world economy, in particular through the practice of arbitrary settlements. We also find unsettling the latest language of the Federal Reserve which states that it is "trying to help families afford the things they need". Direct interferences with prices, wages, and the cost of capital have severe consequences on economic growth. As our former colleague Eric used to say, directed lending has been tried before, and it always ends the same way.

While we rarely comment further on macroeconomic conditions, we want to highlight a couple of points that have repeatedly surfaced through bottom-up research. We're intrigued by all the talks about deflation and the anemically low CPI numbers. What we see on the ground are meaningful price increases in housing, energy, and consumer basics such as coffee, meat, milk or butter. What seems more tangible to us is a lack of underlying growth, for which inflation cannot be a substitute. We're also puzzled by the financings that can be obtained in some emerging markets, particularly in the recent past. We came across a real estate company in Brazil that's finding it cheaper to fund itself with unsecured debt, rather than asset-based financing. We also reiterate one important point we made in our last letter. It is of limited relevance whether macro conditions are better or worse, whether businesses can expect the world economy to grow one tenth of a percent more, or less. Investing in a company under the premise that its earnings will improve going forward makes little sense. There are two things that are relevant to us from an investment standpoint. One is what its normalized, through-cycle economics are. The other is how these economics compare to what's baked into its share price. Even while business conditions appear to be improving, both multiples and earnings forecasts have run ahead of possible positive developments in our view, thus making most valuations unattractive.

All of this is giving us little confidence in the sustainability of current market conditions. With that, we remain committed to our absolute, long-term value investing approach. While it may cause us to experience relative under-performance in the short-term, we believe it minimizes our risk of permanent losses, and will help us achieve superior returns in the long run. To be clear, we are not discouraged by the current state of affairs. Rather, we are quite encouraged by it. Only our optimism is more long-term in nature. It is based on opportunities that are likely to present themselves in the future, rather than the current ones, and the longer things continue on their current path, the better these opportunities will be.

Team credo

As long-term absolute value investors, our focus is on competitively advantaged businesses, with solid balance sheets and strong cash flow generation profiles, run by management teams that both operate the business well and deploy capital in a value creative manner. We only invest in companies that meet all of these criteria, and only when their stocks trade at significant discounts to our estimate of intrinsic value.

As always, we thank you for your confidence and look forward to continue serving your interests as fellow shareholders of the FPA International Value Fund.

Respectfully submitted,

The International Value Team

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