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.

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.

Average Annual Total Returns
As of March 31, 2015

Fund/Index	QTR	YTD	1 Year	3 Year	Since Inception**
FPA International Value Fund	3.65 %	3.65 %	-6.84 %	6.78 %	10.45 %
MSCI ACWI ex US	3.49 %	3.49 %	-1.01 %	6.40 %	8.81 %

**Annualized. Inception of FPA International Value Fund is December 1, 2011.
A redemption fee of 2.00% will be imposed on redemptions of certain shares within 90 days. Expense ratio calculated as of the date of the most recent prospectus is 1.26%.

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 views expressed and any forward-looking statements are as of the date of the publication and are those of the portfolio managers and/or the Advisor. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable. The accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

The MSCI ACWI ex-USA Index is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the United States. These indices do not reflect any commissions or fees which would be incurred by an investor purchasing the stocks they represent. 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. The Fund 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. Foreign investments, especially those of companies in emerging markets, can be riskier, less liquid, harder to value, and more volatile than investments in the United States. Adverse political and economic developments or changes in the value of foreign currency can make it more difficult for the Fund to value the securities. Differences in tax and accounting standards, difficulties in obtaining information about foreign companies, restrictions on receiving investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations, can all add to the risk and volatility of foreign investments. Small and mid cap stocks involve greater risks and they can fluctuate in price more than larger company stocks.

The Fund is non-diversified and may hold fewer securities than a diversified fund because it is permitted to invest a greater percentage of its assets in a smaller number of securities. Holding fewer securities increases the risk that the value of the Fund could go down because of the poor performance of a single investment.

The FPA Funds are distributed by UMB Distribution Services, LLC, 235 W Galena Avenue, Milwaukee, WI 53212.

FPA International Value Fund
First Quarter 2015 Commentary

Dear fellow shareholders,

During the first quarter of 2015, the Fund returned 3.65% (in US currency), compared to 3.49% for the MSCI All Country World Index's (ex-US) (Net) (the "Index"). Importantly, the Fund has appreciated by an annualized 10.45% since inception on December 1, 2011, vs. 8.81% for the Index.

At the end of the quarter, the Fund was just under 70% invested, with the percentage having come down progressively throughout the period. Since inception, the Fund's cash exposure has averaged circa 35%.

Market Commentary

As we write this commentary, the Index is up another 3.49% since the end of the quarter. It is clear now that the beginning of 2015 brought yet another dramatic change in market winds, with the "Abenomization" of Europe. As we discussed in our quarterly commentaries last year, nobody wanted to buy Europe until a few months ago (as they did in early 2012). Now, everything has changed, again.

Faced with anemic growth, and continued pressure to act, the European Central Bank (ECB) announced back in January that it would initiate a €1.1 trillion quantitative easing program, with combined monthly asset purchases of €60 billion intended to be carried out until at least September 2016. The initiative has driven yields to unprecedented levels. Almost a third of Eurozone government bonds now trade with a negative yield. In Germany the negative yields extend seven years, and in Switzerland (while not part of the Eurozone) ten years. More than two-thirds of euro-denominated investment-grade corporate bonds yield less than 1%.

As the ECB "prints away", lower yields are forcing most investors into riskier assets. The bond purchases are also driving the Euro lower (down circa 11% year-to-date, 23% from its 52 week high, and 33% since its 2008 peak). This sharp fall should be bringing some benefits, both translational and transactional, to many European companies, in particular large exporters to dollar-based markets (the exporter-heavy DAX index is up approx. 22% year-to-date). It's also boosting the purchasing power of foreign currencies. Lastly, and possibly partly due to the above, the European economy seems to show signs of life.

With that, we're seeing a strong rally in European stocks, which seemed inconceivable a few months ago amidst talks of Greek exit and Russian crisis (both still pending). This rally combines the hope of renewed growth in corporate profits (mostly from currency benefits) with significant multiple expansion driven by lower interest rates. Because they rely on expectations of market-driven, rather than more robust business-driven earning progression, and artificially low short-term return expectations, the valuations of many European companies now appear increasingly fragile, and often outright excessive. The Stoxx Europe 600 index[1] surpassed the previous peak it reached at the height of the dot-com boom in March 2000 (it is up close to 17% year-to-date). This increase has come mostly through multiple expansion, with the index now reportedly trading at over 19x last 12 month earnings, up from 14x one year ago.

As with every new round of government stimulus, irrespective of where it originates, ripple effects can be seen beyond Europe, with the rally also affecting some emerging markets, and more specifically China. The market has performed strongly on the back of expectations that the government will take similar

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[1] The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

measures with a view to bolster economic growth. Rates are coming down, and debt levels continue to increase, most notably with local governments. The surge in Chinese equities, which are now approaching a seven-year high, has also likely been driven by changes in regulations, the sharp increase in new individual trading accounts, and soaring capital inflows as a result (millions of unsophisticated buyers are rushing in, and investors in the country's A-shares will now be allowed to open multiple accounts). The Chinese economy in the meantime is struggling with subdued growth and more negative macro reports (most recently some appalling trade data). Chinese corporations are also likely to get hurt by the stronger US dollar, with circa 25% of debt dollar-denominated vs. less than 10% of earnings. On the bright side, the government is also expanding the number of shares eligible for short selling, along with other initiatives to favor bearish bets, which could help make opportunities even more attractive when a correction finally catches up with the market.

We are not macro analysts, and we suspect there may not be a big shortage of comments and complaints about central bankers this reporting cycle (although the general response remains surprisingly mundane at this stage), but it seemed opportune nonetheless, to start our commentary this quarter by highlighting the increasingly obvious, at least in our view. Borrowing the concept of Total War ("Der Total Krieg") from WWI German General Eric Ludendorff, it looks like equity markets may now be heading towards Total Melt-up, causing the opportunity set for absolute value investors like ourselves to dry out further, and the very sanity of current financial market developments to come into question.

Key performers

Our worst performing holding in the quarter was **ALS**, which was down 13.82% (in US currency). The position was added to the portfolio towards the end of the fourth quarter 2014. Based in Australia, ALS is a leading provider of geochemistry services, environmental analyses, and a growing participant in a number of other testing, inspection, and certification (TIC) markets. It is particularly dominant in minerals testing, which has experienced a sharp fall in volumes due to reductions in spending by mining companies. ALS also has exposure to oil and gas following its acquisition of Reservoir in late 2013. As a result, the stock is down close to 70% (in US currency) from its peak in 2012. Yet ALS has invested over AU$600 million (circa 30% of its current market cap) in acquisitions since, as part of its long-term strategy to become a more global, multidiscipline TIC player.

Mineral testing is a key driver to large investment decisions, and we believe ALS is a standout, hard-to-replicate asset, mostly due to its global hub-and-spoke network and proprietary information management system. Management is deeply rooted with the business, has delivered superior execution through cycles (despite organic decline of approximately 35% in FY14, Minerals generated operating profit margins in excess of 20%), and generally deployed capital in a value accretive fashion, having purchased, and integrated, more than 40 companies in the past 10 years. Net debt to EBITDA is higher than our typical portfolio candidates, but the ratio is manageable given long maturities and ALS's strong free cash flow generation.

While the business is cyclical, and current conditions depressed, the TIC industry, including minerals, has good long-term growth prospects. ALS fundamentals remain strong, as the group still generates returns on operating capital employed north of 20%. We think a more normal through-cycle level of return for the business is materially higher, and not reflected in the current share price. As minerals improve, diversification further progresses, and the long-term benefits of the Reservoir deal start to show, we believe this discount could unwind. As a result, we have become a large shareholder in the company.

Our best performing reported holding in the quarter was **Fugro**, which returned 28.32% (in US currency). We commented on the company in both of the past two quarters, as the stock was a meaningful negative contributor to the Fund's return in the second part of 2014. Based in Holland, Fugro is a leading provider of geotechnical and geophysical analyses, primarily for oil and gas projects. As such, the group has experienced significant disruptions caused by the sharp decline in oil prices. In the past few months however, management has stepped up to this market challenge. They've taken actions to lower costs, reduce capex, and strengthen the balance sheet. They've also generally improved operations, aligned incentives better with cash generation and value creation, and looked to focus Fugro's portfolio further on core businesses. Longer-term, we expect business conditions to improve as depleting oil fields will ultimately need to be replaced, and we think Fugro has some fundamentally solid businesses.

In addition, Dutch peer Boskalis has built a stake in the company of about 25% over the past few months. Boskalis is a leading global provider of dredging services which is more than 30% owned by local investment trust HAL. HAL is controlled by the Van der Vorn family, one of the richest in Holland. This is in addition to the small group of long-term value investors on the registry, who together account for more than 15% of the stock. Other transactions in the sector, including one involving some of Fugro's closest peers at a compelling multiple, have also helped with the market's understanding of the company's value.

Overall, we think Fugro is on track to becoming a cleaner portfolio of higher quality businesses, run by a strong management team adequately aligned with shareholders' interests, with a robust balance sheet. With that, we believe the stock remains attractively priced at current levels, and given the cyclical weakness in the group's core markets. We maintain a large investment in the company as a result.

Portfolio activity

Following our last quarterly report, we disclosed the recent addition of **Sulzer** to the portfolio. Based in Switzerland, Sulzer is one of the world's leading pump manufacturers. During the period, we also added a couple of new positions, including **Countrywide**. Based in the UK, Countrywide is the country's leading residential real estate brokerage network. The group has also been aggressively growing its lettings business in the past few years, both organically and through acquisitions. We think lettings are an intriguing niche with compelling business characteristics (counter-cyclical, recurring, cash flow generative, high return), and significant opportunities for continued value creation.

We also continued to build on some of our existing positions as prices came down, and to reallocate assets away from positions with lesser upside, towards positions offering the greater discounts to intrinsic values. However, we have only sold out of one position, **Senior**. Based in the UK, Senior is a leading manufacturer of components for gas turbine engines, aircraft structures, and fluid conveyance systems. It had been a Fund's holding since the third quarter of 2012. While the position had long been adjusted to reflect the unwinding of the discount, it finally reached our estimate of intrinsic value[2], which caused us to sell our remaining investment. Senior remains a well-run, financially strong, high quality company that we would be happy to own again, if we can invest in it with a high margin of safety.

Portfolio profile

The overall profile of the portfolio remained largely unchanged from the previous quarter. Consistent with our investment philosophy, it remains relatively concentrated with less than 30 holdings, and the top 10 accounting for roughly 40% of the Fund's assets. At March 31st, 2015, the weighted average discount to intrinsic value[3] of our holdings was right around 30%, down from its recent peak of about 35% at the close of 2014.

[2] **Intrinsic Value** is the actual value of a security.
[3] **Discount to Estimated Intrinsic Value** - The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors. This value may or may not be the same as the current market value and thus if it is less it is at a discount.

While the weighted average market cap is in excess of $15 billion, the median is around $5 billion, which means the portfolio is reasonably balanced between small and mid-caps. We do not consider this to be very meaningful however, as it is simply a reflection of where we find compelling opportunities. Our approach is agnostic to size, as it is to geography.

The main geographic features of the portfolio are broadly similar to what they were at the end of last year. While we are invested in companies based in emerging markets, both Asia and Latin America, our holdings are primarily European. We also have notable exposure to businesses located in the Pacific Basin. We find that where companies are domiciled is of limited relevance, however. What matters to us is where free cash flow is generated, and therefore business value created, along with the risks associated with this value creation.

We still have no exposure to companies based in Japan, where we find that management teams typically lack the financial discipline we look for, and where we think valuations remain generally unattractive. As we pointed out in past commentaries, we don't think Abenomics are likely to bring much economic benefits. Two years into the country's monetary easing program, these policies have done more so far to boost asset prices than for the real economy. Equities have more than doubled since November 2012, while the Yen has weakened by about 50%, but GDP has barely budged, as structural reforms have remained elusive. Most of the rise in corporate earnings has come from translation (and sometimes transaction) effects from a weaker yen, and macroeconomic reports continue to be negative. We suspect the pending ECB program may produce similar outcomes.

From a sector standpoint, we still have no exposure to banks. We find that these businesses often don't lend themselves well to research and appraisal, and tend to generate low returns, despite high levels of financial leverage. Furthermore, we've argued that their business model may be structurally impaired by increased regulatory pressure. We would add that banks now find themselves having to eschew deposits and being forced into holding on to loss making government bonds due to new liquidity requirements. Similarly, the negative rate environment appears to threaten the business model of insurance companies, as they struggle to invest in a way they match both their regulatory and their financial obligations.

GE's decision to sell its capital arm, despite a $6 billion tax hit as a result, further highlights this point. The decision appears to be a fallout of the suffocating regulations rolled out since the financial crisis, and in particular the SIFI (Systematically Important Financial Institution) status, with large amounts of capital and massive financial leverage needed on top of it to operate in the sector, while delivering elusive mid to high single digit returns on equity.

Exposure to Industrials remains meaningful, due to our investments in sectors like mining, and Oil & Gas to a lesser degree. Beyond that, the Fund is still relatively diversified, while geared toward businesses that are cash generative and not very capital intensive. These include service type businesses, robust industrials, and consumer goods companies. Our exposure to technology is broadly the same, and simply reflects the strong fundamentals of the underlying businesses, rather than any calls on technological developments or market cycles. In general, we find that technology-driven companies are difficult to value, as we typically struggle to assess the long-term sustainability of their business models.

Long-term prospect

In general terms, our perception of the overall macro framework also remains broadly unchanged. We continue to see positive developments in the US, and some signs of life in Europe, although visibility remains limited. We are concerned with continued increase in financial leverage, in particular sovereign debt (which continues to increase as a percent of GDP in many countries), weak financial institutions, most notably in Europe, imbalances in developing countries, specifically in China, the likelihood of tax increases, the threat of rampant inflation or currency disruptions driven by fiscal and monetary policies, and the rise in size, scope, and cost of governments across markets. We remain mindful of the possible aftermath of the series of shocks the world economy has recently experienced, including dramatic currency moves, and the sharp decline in oil prices.

We see potential compelling prospects for our investment strategy however, as it appears as though we're heading into tumultuous political and economic times. While challenging, such periods may present us with unique investment opportunities. We also think that our portfolio remains relatively well-positioned to weather the cycle, and we continue to hold a significant amount of cash, which we expect will continue to increase as markets go through yet another leg of the multi-year rally they've already experienced. This should allow us to take advantage of possible future suppressed liquidity, and extreme price dislocations.

Investment credo

As absolute, long-term 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, whose stocks we can purchase at significant discounts to our estimates of intrinsic value.

As always, we thank you for your confidence. We also want to address our particular thanks to some of our most like-minded shareholders, who have trusted our work and added to their investments when the weighted average discount of our holdings peaked following the reinvestment effort last year. Similarly, we thank them in advance for not redeeming at inopportune times. We look forward to continue serving all your interests as shareholders of the FPA International Value Fund.

Respectfully submitted,

The International Value Team

Pierre O. Py
Portfolio Manager

Jason Dempsey Analyst	Victor Liu Analyst

March 31, 2015

Update

Subsequent to the writing of our Quarterly letter, we feel it's appropriate for us, as market events continue to unfold, to reiterate some our thoughts on investing, what we believe to be some of the key tenets of long-term investment success, along with what pending market developments could mean for the portfolio, and to share some of our early reactions to this rather unique moment. To that end, we have included the following supplement (Manager's Commentary).

Dear fellow shareholders,

We mentioned in our first quarter 2015 commentary that following a short period of renewed investors' aversion for some pockets of the market (such as Europe or emerging market related stocks), things may have swung to an extreme in the opposite direction. We think we may now have entered a phase of wide-spread speculation led by multiple government initiatives to inject vast amounts of liquidity into the system. In light of this environment, we have penned this commentary.

From an investment philosophy perspective, we believe there are lessons to be drawn from the equity market developments over the past nine months. Along with that, we would also like to reiterate some of our thoughts on investing, and what we believe to be some of the key tenets of long-term investment success. Lastly, we feel we may have reached a point now where we need to step back and reflect on the current financial market situation and what it could mean for the Fund going forward.

Audacity of reinvestment

Despite continued high exposure to cash, the Fund has performed slightly ahead of the first quarter 2015 rally, highlighting the importance of the reinvestment activity we undertook in the latter parts of last year. As a reminder, we commented in our third quarter 2014 letter that with European shares being hit particularly hard, things were starting to feel like a replay of the early part of 2012. We described our efforts at the time to take advantage of some material, possibly short-lived, share price dislocations. We had built or re-built 10 positions which together accounted for more than 25% of our assets, and were rushing to finalize a pipeline of new ideas.

This quarter, half of the Fund's top ten biggest return contributors were positions built during this last period of reinvestment. Together, these holdings accounted for over 60% of the total equity holding contribution to the Fund's return. While several of our recent new investments, such as **ALS**, **Fenner**, **KSB** or **TNT** had yet to play out at March 31, 2015, and while this was only a short period of time, these attributions support our belief in the importance of swift capital redeployment when opportunities arise.

More generally, we believe an important contributing factor to superior returns over the long run is the process of moving out of companies that trade around estimated fair values, and into new ones that trade at a significant discount. Part of the equation is being able to move out, i.e. the flexibility to hold cash, as opportunities to redeploy capital may not exist. We'd rather own cash than put capital at risk without a high margin of safety, thereby increasing the risk of permanent losses. The alternative in a fully invested mandate would be the next "least-bad" investment, which may defeat the purpose of moving out of existing positions when factoring-in taxes, trading costs, and margin of error in assessing intrinsic values, in particular with new companies.

The other part of the equation is finding genuine bargains to replace existing holdings. As such, these new investments offer significantly greater upside than those moving out, which is simply a function of our absolute approach. In that respect, the appeal of a reinvestment opportunity is also partly conditioned by the level of pricing dispersion, in particular since we don't consider over-diversification as a risk mitigating factor. The wider the range of upsides, the more compelling the reinvestment opportunity becomes.

Reinvesting is made easier for us by the smaller scale of the Fund, our broad investment universe, unconstrained, benchmark-agnostic approach, and the concentrated nature of the Strategy. We don't need the whole market to experience a significant correction in order to "reload" the portfolio. A handful of individual new investments suffice. Our approach to portfolio construction, whereby relative weightings are based on relative discounts to intrinsic value, also magnifies the level of pricing dispersion, thus making the reinvestment opportunity more attractive.

The challenge however, is to be ready and willing to take advantage of price dislocations, no matter how short-lived, or as Charlie Munger put it (per our October 15, 2014 letter) to have gumption, and be ready to pounce when the opportunity presents itself. This is because negative trends typically continue to drive prices further down, even as we buy these discounted companies, at least in the short term. As long-term value investors, we knowingly step in front of negative short-term price trends. Buying too early (and selling too soon, while making some money in between), is rightly often used to describe what we do.

This approach is contrarian in nature, and as such, seldom a comfortable one, which is why what we do, while inherently simple, is so difficult. It is far more risky to be wrong when others are right, than to be wrong with the crowd, and one could go through a successful asset management career without taking that sort of risk. It's much harder to do something different. It requires a certain degree of audacity, and probably arrogance in one's convictions. Yet, we believe it is key to long-term wealth creation, and thus, this is how we will manage the Fund always, no matter how unpleasant and unpopular.

Value discipline

Genuine bargains may come in bulk, as they did during the financial crisis. At the time, investors were presented with opportunities to invest in many of the highest quality businesses and management teams at discounts well in excess of 30%. These are exceptional, once in a lifetime type situations however, even for us with a concentrated approach. Most of the time, we find opportunities in the "grey area", where less impressive yet ownable companies are excessively discounted relative to their overall quality.

The key is to assess what sort multiple of normal profit (i.e. indirectly cost of equity, or risk compensation) we can place on a given company. Our primary focus is sustainability. We want to own businesses that durably compound value over time, as part of our effort to limit the risk of permanent loss. We need to be comfortable holding a business in perpetuity. If not, we don't invest. From here, we're willing to pay more (i.e. tolerate a lower compensation for the risk we take) for higher quality. What multiple we use to assess intrinsic value is based on where the company sits on the quality curve. Ultimately however, we consider a company worth 8x trading at 5x to be as compelling as a company worth 15x trading at 10x. In both cases, the upsides are the same, and because we put all portfolio candidates through the same analytical process, both upsides should, in principle, be created equal.

This means the portfolio's weighted average multiple could fluctuate along with the cycle. While it may be higher in situations like the financial crisis, it could be lower when stocks are expensive, and in particular when their prices are driven by macro-economic or political considerations, rather than fundamentals. It's essential to understand however, that because we price companies based on their overall strength (business, management, balance sheet), the quality of the upside stands to be similar in all cases.

A key guardian of the integrity of upside is our absolute approach, along with the quality of our selection process. Because we have the flexibility to say "no" by moving into cash, and do not *have to* find replacements for investments that reach fair value, we shouldn't suffer material distortions in valuations. Distortions include things like multiple inflation (as low rates drive cost of capital lower, and leverage higher), or inward-looking assessments (as the need for exposure to a given sector, geography, or business model dictates higher multiples). They're all variants of the rationalization (deliberate, pressured, or unconscious) that may occur when deploying capital in the face of increasingly stretched valuations.

The implications of these distortions can be highly damaging from a portfolio management standpoint, including anchoring (more of the same bad idea), under-weighting of best ideas, and the inability to recognize mistakes, all of which ultimately hurt long-term performance. In the end, whether low or high on the quality curve, a company will only be purchased and owned if its stock price doesn't reflect such level of quality by a large margin. This is the type of absolute value opportunities that we need to focus on for our reinvestment efforts to bear fruit over time. We believe this discipline is also key to our long-term investment success, and we'll continue to remain true to it in all market conditions.

Patience and restraint

In the absence of such compelling opportunities, we will still move out of investments as discounts unwind, as we have in the past, and simply move into cash as a fall out. As we write this commentary, in view of how global equity markets are performing, we could be heading into this type of situation.

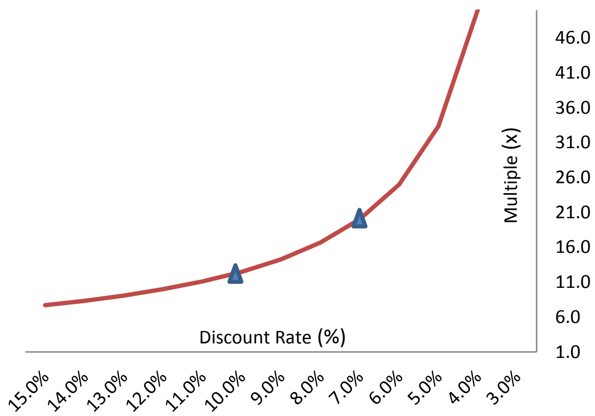
We highlighted some signs of excesses in past commentaries. Indications of interest driven exuberance are still all around: from real estate financing (Fannie Mae re-launched the 30-year, 97% LTV mortgage), to consumer lending (four out of every 10 loans for autos, credit cards, and personal borrowings were subprime in 2014 in the US, the highest since 2007), to corporate funding (Internet-based Docker was valued at $1 billion in a recent round of funding, after it "pivoted" into a provider of software designed to simplify developers' work, a product it now offers… for free), to sovereign lending. Should Mexico, a country that over 100 years has experienced civil war, massive currency destruction, gruesome criminality supported by continued high levels of corruption be able to borrow at 4% over that type of timeframe?

However, signs of sheer lunacy are now also emerging: from European banks having to pay interests to customers on mortgages, to US banks wary of excess deposits hurting net income margins, while being forced into holding money losing government bonds due to new liquidity requirements. A recent Financial Times article summed it up best: "The absurd is becoming an everyday occurrence". In a coincidental twist, the article stood next to a piece on "Furious 7", which could soon be a good nickname for this market cycle. Charlie Munger recently commented that he regards it as all "very weird", and called it "a new abnormal". Like him, we are confused and puzzled by the situation.

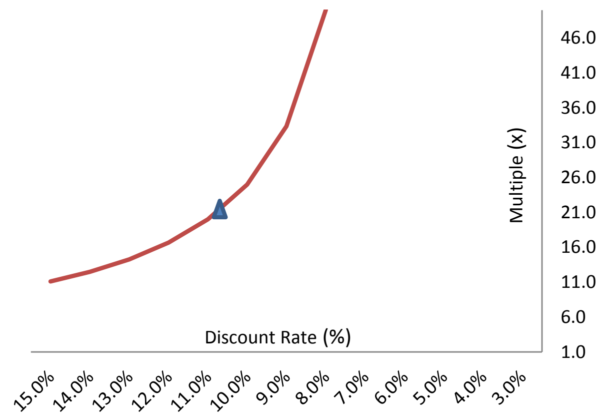
Few investors in risky assets (such as equities) seem to give much attention anymore to how quickly losses in capital can exceed low returns on lower-risk assets (such as cash), and thus, what absolute returns they should require to make them indifferent to the possibility of that loss, inherent to any investment. They appear to be capitulating, for they simply can't think through where this madness will lead. Yet the negative yield environment is a paradigm shift that could have severe unpredictable consequences, as it challenges the building principle and viability of the financial system.

We have entered a sort of "financial twilight zone", as most of our intellectual frameworks have become irrelevant. Consider the following: based on the commonly used CAPM (Capital Asset Pricing Model) and terminal value calculation, one could argue using current levels of interest rates, with long-term growth expectations unchanged, that most businesses should be valued at a virtually infinite multiple of normalized free cash flow, thus offering theoretically unlimited upside. Quality companies which have the ability to generate higher long-term growth are the most exposed to this "technical exuberance", but as rates fall even lower, it starts being true of lower growth companies as well. This is because the terminal multiple in that model is an inverse function of the spread between discount rate (or return expectation) and long-term growth of free cash flow (which speaks to the quality of the business). The lower the spread, the lower the multiple is. The closer to zero, the more extreme the impact of any incremental reduction on the multiple is. As illustrated in the table below, assuming a discount rate of 10%, low growth (eg 2%) company A would be valued at 12.5x, but high growth (eg 6%) company B at 25.0x. Cutting the discount to 7%, the implied multiple would be 20x for company A, and… 100x for company B.

Low growth (eg 2%) company A:



High growth (eg 6%) company B:



Source: FPA

This means we should be racing to buy an infinite amount of essentially most listed companies. One sell-side analyst stigmatized the issue well: "As with all banking led triumphs of Excel models on common sense, many of these [situations] did not end well. Is this happening today in a more simplistic fashion?" One alternative to this would be to assume that long-term growth expectations should be brought down to nothing. While we would be the first to challenge some of the earning expectations out there - which clearly indicate investors do anticipate positive growth -, we would certainly not suggest that long-term, the world has simply gone ex-growth. Something's got to give.

Valuations are increasingly difficult to tie back to fundamentals. It seems to be coming down to whether one is willing to temporarily price-in a cost of equity below some reasonable long-term level. This in turn presupposes an ability to time the market, the key here being to anticipate not when rates will rise, but when the market will start recognizing they will, within the sort of short-term framework it always uses. In short, the environment is becoming abnormally speculative, the alternative being to dance along, or risk losing the trust of some shareholders. While valuations are already stretched, prices could go higher (the same flawed logic or irrational behavior that drives a given stock to trade at 30x P/E equally support 40x or 50x), which could lead to under-performance, and cause shareholders to depart.

Our view on that front is that of value manager Jean-Marie Eveillard. We'd rather lose half of our clients than half of our client's (and our own) money. Whatever "returns" we may miss out on won't translate into wealth creation anyway, short again of being able to time the market and sell right before the fall. Most managers, by the virtue of their mandate, simply can't monetize. In that sense, they shouldn't concern themselves with elevated valuations, and typically don't. As absolute investors, we have the luxury of asking ourselves the question, and we will always choose not to dance.

Critical stage

So in a financial world where up is down, and down is up, what is a fund manager to do? How can we, as long-term value investors cope with this Ubuesque reality? Well, first, we'd expect to continuously sell out of holdings which no longer trade at appropriate margins of safety. From the insiders' perspective, it seems to be a good time to be sellers of stocks, rather than buyers, as illustrated by the accelerated divestiture program of many private equity firms. As we consider this likely scenario, we are excited about the fact that we operate in a field where few have the flexibility to do this. It gives us a structural advantage to be able to create value for shareholders that we trust will prove powerful going forward.

We continue to look around for new ideas, but are increasingly disheartened by market prices. In a reverse of 2008, there seems to be no place to "hide" (or rather, look), nothing to do. So nothing is what we'll do. In fact, I personally went on my 11th week of vacation (as per my wife's accounts) in 10 years, which may provide some indication of how discouraged we are by current market developments. I made good use of this time however, by starting a re-read of "Manias, Panics, and Crashes: A History of Financial Crises", in its sixth edition, which puts it all in a helpful perspective. The book is a strong reminder that "nearly every mania has been associated with rapid growth in the supply of credit". The same causes causing the same effects at any point in financial history, we expect that this cycle won't disappoint. It never makes for a good outcome to have so much capital available, along with many opportunities for capital to be destroyed. For instance, we see that large amounts of debt are being raised with currency exposure by foreign companies in need to raise fresh cash to offset slower growth (if not falling sales), reduced margins, or poor (if not negative) cash conversion. Speculative-grade borrowers are taking advantage of the current rate environment. One would expect more low quality borrowers to oblige as reasonable market participants drop capital as hot potato. When cheap financing dries out, these borrowers will likely find themselves unable to service their debt, and value destruction will ensue.

To paraphrase a recent industry commentator, we seem to be having a June 1789 (before the French revolution) moment in global finance. Markets are rallying all around, yet black swan candidates abound: Greek exit, sharp currency movements, emerging market crisis, oil shocks, and unpredictable disruptions related to negative yields. In his latest shareholder letter, Jamie Dimon commented that the rapid price changes in the US treasury market were on a scale only supposed to happen every 3 billion years. Incidentally, he also mentioned that volatility could be exacerbated in the next crisis by a shortage of treasuries (and all forms of good collateral), because of central bank purchases and new liquidity requirements tying up safe assets at banks. It seems improbable that such dramatic events as the rapid rise of the Swiss Franc, or the sharp fall in oil prices, wouldn't be accompanied by some spectacular failures and their ripple effects. One can't help but have that "horrific sense" that something has to happen, is about to happen, but no one can quite say what. It seems we are entering a critical stage.

With that in mind, we should remain disciplined, and show restraint as we move out of investments that have reached fair value. The same way we employ patience in waiting for discounts to unwind, we will step back, carefully monitor our cash exposure (in order to protect liquidity as well as capital), and wait for the opportunity to deploy capital in a way that is consistent with our discipline. We may soon be presented with yet another "once in a life time" market opportunity. If we remain true to our investment philosophy against the mania, we should find ourselves well-positioned to take advantage of it.

While our approach might translate into short-term under-performance relative to an index, we encourage shareholders to look at capital appreciation over a multi-year period, through a full market cycle, along with the type of risk that was taken to achieve such value creation. We find it is somewhat meaningless to relate what we do to any given benchmark. We use the MSCI All Country World Index (ex-US) (Net) as required, and because it is the closest thing to our theoretical universe. However, we do not seek to maximize the return that could be extracted from that universe. Rather, we take a continuous walk around the world looking for well-run, high quality, financially robust companies which we can buy at a discount to intrinsic value in excess of 30%. We feel no pressure in generating more modest temporary returns, so long as they compound to superior capital appreciation in the long run, while seeking to limit the risk of permanent losses along the way.

Respectfully submitted,

The International Value Team

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March 31, 2015

FPA
investors first

FPA International Value Fund, Inc.

Portfolio Holdings

3/31/15

CUSIP/SEDOL	TICKER	SHARES	SECURITY	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
G1151C101	ACN	29,100	ACCENTURE PLC CL A*	93.69	2,726,379.00	0.54%
4031976	ADS GR	209,500	ADIDAS AG*	79.24	16,599,773.55	3.26%
0147899	AGK LN	685,886	AGGREKO PLC*	22.65	15,536,359.20	3.05%
B86SZR5	ALQ.AU	6,049,347	ALS LIMITED*	3.78	22,853,126.55	4.49%
B12TR11	ATEA NO	405,014	ATEA ASA*	11.27	4,562,610.39	0.90%
B1FJ0C0	BXB AU	654,517	BRAMBLES LTD*	8.77	5,742,868.36	1.13%
4061393	CDO FP	24,800	CHRISTIAN DIOR SA*	188.98	4,686,586.04	0.92%
B9NWP99	CWD LN	1,575,000	COUNTRYWIDE PLC*	7.62	12,008,864.80	2.36%
B1Y9TB3	BN FP	183,361	DANONE SA*	67.33	12,346,094.93	2.42%
0237400	DGE LN	492,879	DIAGEO PLC*	27.58	13,595,487.22	2.67%
0334505	FENR LN	8,257,572	FENNER PLC*	2.99	24,712,927.25	4.85%
B096LW7	FUR NA	993,403	FUGRO NV*	26.86	26,682,559.16	5.24%
B01FLG6	GFS LN	1,920,827	G4S*	4.39	8,428,391.49	1.65%
6358004	GUD AU	640,991	G.U.D. HOLDINGS LTD*	6.28	4,022,856.99	0.79%
B2QY968	HYPE3 BZ	2,061,700	HYPERMARCAS SA*	6.17	12,725,945.07	2.50%
6673042	IPL AU	1,497,771	INCITEC PIVOT*	3.10	4,642,963.59	0.91%
4498065	KSB3 GR	28,416	KSB AG VORZUG*	473.38	13,451,536.32	2.64%
B1G5HX7	LSL LN	6,326,574	LSL PROPERTY SERVICES PLC*	5.02	31,767,683.23	6.24%
3023231	MPI LN	1,673,035	MICHAEL PAGE INTERNATIONAL*	7.74	12,942,483.43	2.54%
			OTHER		16,986,878.06	3.33%
B4PFFW4	1913 HK	2,546,700	PRADA SPA*	6.06	15,439,224.01	3.03%
4380429	PUB FP	55,968	PUBLICIS GROUPE*	77.24	4,322,701.37	0.85%
4846288	SAP GR	242,794	SAP AG*	72.61	17,629,673.92	3.46%
7062713	SW FP	48,258	SODEXO*	97.62	4,711,041.34	0.92%
4854719	SUN SW	149,600	SULZER AG*	110.10	16,471,702.00	3.23%
874039100	TSM	110,700	TAIWAN SEMICONDUCTOR MFG LTD SPD ADR*	23.48	2,599,236.00	0.51%
B3Y0JD2	TNTE NA	2,905,418	TNT EXPRESS NV*	6.37	18,497,509.70	3.63%
B82YXW8	VSVS LN	165,614	VESUVIUS PLC*	7.28	1,206,494.25	0.25%
			TOTAL EQUITIES:		**347,899,957.22**	**68.31%**
		2,011,000	EUR CURRENCY 5/11/15 (2,011,000 EUR@ $1.39208)		636,035.73	
		37,000	EUR CURRENCY 5/11/15 (37,000 EUR@ $1.38526)		11,449.96	
		2,198,000	EUR CURRENCY 5/11/15 (2,198,000 EUR@ $1.364255)		634,020.42	
		138,000	EUR CURRENCY 5/11/15 (138,000 EUR@ $1.36321)		39,662.35	
		32,000	EUR CURRENCY 5/11/15 (32,000 EUR@ $1.35591)		8,963.47	
		118,000	EUR CURRENCY 5/11/15 (118,000 EUR@ $1.35702)		33,183.76	
		40,000	EUR CURRENCY 5/11/15 (40,000 EUR@ $1.36475)		11,557.93	
		4,011,000	EUR CURRENCY 5/11/15 (4,011,000 EUR@ $1.37127)		1,185,123.48	
		1,920,000	EUR CURRENCY 5/11/15 (1,920,000 EUR@ $1.3677)		560,444.80	
		317,000	EUR CURRENCY 5/11/15 (317,000 EUR@ $1.36398)		91,352.53	
		11,880,000	EUR CURRENCY 6/17/15 (11,880,000 EUR@ $1.34809)		3,228,089.88	
		6,696,000	EUR CURRENCY 6/17/15 (6,696,000 EUR@ $1.34445)		1,795,095.40	
		746,000	EUR CURRENCY 6/17/15 (746,000 EUR@ $1.34002)		196,686.43	
		933,000	EUR CURRENCY 6/17/15 (933,000 EUR@ $1.33086)		237,443.59	
		1,055,000	EUR CURRENCY 6/17/15 (1,055,000 EUR@ $1.29551)		231,197.70	
		1,813,000	EUR CURRENCY 9/16/15 (1,813,000 EUR@ $1.26893)		346,175.10	
		744,000	EUR CURRENCY 9/16/15 (744,000 EUR@ $1.14197)		47,601.48	
		2,063,000	GBP CURRENCY 12/16/15 (2,063,000 GBP@ $1.5153)		69,472.82	

CUSIP/SEDOL	TICKER	SHARES	SECURITY	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
		4,487,000	GBP CURRENCY 12/16/15 (4,487,000 GBP@ $1.48325)		7,294.19	
			TOTAL DERIVATIVES/FUTURES		**9,370,851.02**	**1.84%**
			TOTAL MARKET VALUE:		**357,270,808.24**	**70.15%**
			CASH & EQUIVALENTS (NET OF LIABILITIES):		**152,060,943.80**	**29.85%**
			TOTAL NET ASSETS:		**$ 509,331,752.04**	**100.00%**
			NO. OF EQUITY POSTIONS:		**27**	

* Indicates Foreign Security

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