

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.



## FPA Paramount Fund Third Quarter 2015 Commentary

### Average Annual Total Returns

As of September 30, 2015

	QTD	YTD	1 Year	3 Years**	5 Years**	10 Years**
FPA Paramount Fund, Inc.	-11.84 %	-7.89 %	-7.63 %	5.72 %	7.46 %	4.93 %
MSCI ACWI	-9.45 %	-7.04 %	-6.66 %	6.95 %	6.82 %	4.58 %

\*\* Annualized. FPA Paramount Fund transitioned to its current World Value strategy on September 1, 2013. A redemption fee of 2.00% will be imposed on redemptions within 90 days. Expense ratio is 1.26% as of most recent prospectus.

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

**You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies, 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](http://www.fpafunds.com), by email at [crm@fpafunds.com](mailto:crm@fpafunds.com), toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.**

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. To view portfolio holdings from the most recent quarter end, please refer to the end of this document or at [www.fpafunds.com](http://www.fpafunds.com).

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 Russell 2500 Index is an unmanaged index comprised of the 2,500 smallest companies in the Russell 3000 Index. The MSCI All Country World NR Index is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging markets.

You cannot invest directly in an index.

#### 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 which are subject to interest rate, currency exchange rate, economic and political risks. Small and mid cap stocks involve greater risks and they can fluctuate in price more than larger company stocks. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds.

A non-diversified fund 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.

Please consult your tax advisor regarding higher capital gains distributions due to a change in portfolio strategy. The FPA Funds are distributed by UMB Distribution Services, LLC, 235 W Galena Avenue, Milwaukee, WI 53212.



Dear Fellow Shareholders:

During the third quarter of 2015, the Fund declined 11.84% compared to the MSCI All Country World Index's (Net) (the "Index") decline of 9.45%. Year to date, the Fund declined 7.89% versus a decline of 7.04% for the Index<sup>1</sup>.

As always, we believe it is important for shareholders and future investors to understand our performance objective and the return profile implicit in the execution of our strategy is to continuously maximize the Fund's discount to intrinsic value, and therefore maximize long-term potential returns. Doing so with a concentrated portfolio means performance may vary significantly from period to period in relation to the Index. We are willing to tolerate this type of short-term volatility because we believe increasing the Fund's holdings of securities trading at discounts relative to their long-term value, even when doing so may negatively impact short-term performance create the best chances for long-term outperformance.

### **Key Performers**

Our worst performing holding in the quarter was U.S.-based **Joy Global**, which declined about 58.4%. Joy is a global manufacturer of mining equipment, whose biggest customers are coal producers. The downturn in Chinese commodity demand has had a major impact on the business, causing Joy's sales to fall by more than 45%, and operating profit by more than 75% in the last three years. EBITDA now stands effectively at the same level it was ten years ago. While Joy's market is experiencing a severe down cycle in the short term, including some re-basing from the long commodity super cycle, longer term we believe that coal will remain a major fuel source, and that most of the Joy mining systems installed around the world will continue to operate. As customers run this installed equipment under harsh conditions, we expect Joy will be able to capture the higher-margin service and replacement parts required. Joy also continues to have leading market share for sophisticated customers as it operates in a global duopoly with Caterpillar. Joy's management has responded to the downturn by reducing operating expenses to balance manufacturing utilization as well as eliminating any growth capital spending. Balance sheet leverage has increased to 2.5x Net Debt to EBITDA<sup>2</sup> because of the operating profit decline, but we expect cash flow to provide ample liquidity to meet future debt obligations. Ultimately, Joy is a strong

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<sup>2</sup> Net Debt to EBITDA is a measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

franchise in a niche, concentrated market, with a solid recurring business. It is financially robust and well managed. Yet in the current environment, its stock trades at less than 13x depressed earnings. It also presents us with a double digit free cash flow yield, while we wait for some normalization of underlying business conditions. Consequently, we have added further to the position.

Our best performing reported holding in the quarter was U.S.-based **Google**, which gained approximately 16.9%. The company operates a global advertising business, selling ads through its internet search engine and other programs, as well as placing ads on other companies' websites. As the shift in consumer attention to online activities continues, advertisers are increasing the amount spent online to the benefit of companies with unique assets like Google. In recent years, company expenses have grown faster than revenues as investments in R&D and physical hosting infrastructure have grown. Based on recent management comments, the company intends to slow the rate of future expense growth. Despite the investment phase, return on capital employed exceeded 30% on average over the last five years. The company's financial strength is very robust, reflecting balance sheet cash and expected cash flow generation. With seemingly more focus on operational discipline now, we remain interested in being invested in the company, so long as the stock offers an appropriate margin of safety<sup>3</sup>.

### ***Portfolio Activity***

For much of the first six months of 2015, opportunities to buy high-quality businesses at appropriately discounted valuations had been rare, but the tide finally seemed to turn in the third quarter. The slowing Chinese economy and its negative impact on emerging market growth, commodity demand and developed market corporations with exposure to these areas caused the Index to fall approximately 13% from its highs in the second quarter of 2015. We took full advantage of the swoon, buying seven new positions and increasing the weights in several others. This led to our cash balance during the quarter to decline from 19% to 9%.

The new positions are businesses we had known for many years and in some cases owned previously. **Ansell**, based in Australia, is a global provider of health and safety products including gloves, protective clothing and sexual health products. Based in the U.S., **Twenty-First Century Fox** is a media company with global broadcast and cable assets. **Richemont**, based in Switzerland, owns luxury brands including Cartier, Piaget, Baume & Mercier and Montblanc. Another new position related to Richemont is **Swatch**. Based in Switzerland, the company owns a collection of watch brands including Omega, Longines and its namesake, as well as serving as the largest supplier of mechanical components to the rest of the Swiss watch industry. Finally, **DKSH**, based in Switzerland, offers international market expansion services,

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<sup>3</sup> Margin of safety- Buying with a "margin of safety," a phrase popularized by Benjamin Graham and Warren Buffett, is when a security is purchased for less than its estimated value. This helps protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

mostly across Asia. The company acts as an outsourcer, helping customers establish or expand their products, brands or services.

### ***Portfolio Profile***

The Fund's overall profile changed slightly this quarter as the number of disclosed holdings increased to thirty-eight. This is a greater number than in the recent past due to the opportunistic purchases described above, but remains within the range of the twenty-five to fifty businesses that we would expect to own at any given point in time. The top ten holdings represented about 40% of Fund assets, and position sizes are based on the relative discount to intrinsic value of each (largest weightings correspond to the largest discounts).

Most of the positions are large-caps (median \$15 billion), including several considered mega-caps, in part as a function of our mandate which focuses on companies with market caps in excess of \$2 billion. Companies domiciled in Europe and the U.S. continue to represent most of our portfolio, with Asia Pacific and a few emerging market investments making up the balance. Where a company is domiciled generally matters little to us. Since many of these are large companies, they typically conduct business on a global basis. This means they often generate significant amounts of their cash flows outside their home countries, rendering traditional country classification less useful.

Respectfully submitted,

The World Value Team

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Portfolio Manager

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October 16, 2015

TICKER	SHARES	SECURITY	MKT PRICE (\$)	MKT VALUE (\$)	% OF NET ASSET VALUE
ADS GR	45,700	ADIDAS AG*	80.46	3,677,202.25	2.39%
AGK LN	317,007	AGGREKO PLC*	14.39	4,560,541.10	2.97%
ALQ AU	2,412,294	ALS LIMITED*	3.23	7,788,672.17	5.07%
ANN AU	230,000	ANSELL LTD*	13.16	3,026,944.54	1.97%
BXB AU	335,000	BRAMBLES LTD*	6.84	2,290,230.11	1.49%
CDI FP	30,000	CIE FINANCIERE RICHEMON REG	77.67	2,330,186.74	1.52%
CSCO	89,100	CISCO SYSTEMS INC	26.25	2,338,875.00	1.52%
BN FP	57,100	DANONE S.A.*	63.04	3,599,794.40	2.34%
DGE LN	108,400	DIAGEO PLC*	26.78	2,903,302.03	1.89%
DKSH SW	60,000	DKSH HOLDING LTD*	63.26	3,795,403.24	2.47%
EBAY	24,900	EBAY INC	24.44	608,556.00	0.39%
FUR NA	336,275	FUGRO NV*	17.66	5,938,784.81	3.87%
GFS LN	905,250	G4S*	3.49	3,159,243.73	2.06%
GOOG	6,800	GOOGLE INC. - Class C	608.42	4,137,256.00	2.69%
HYPE3 BZ	740,600	HYPERMARCAS SA*	3.85	2,854,425.02	1.86%
IPL AU	481,902	INCITEC PIVOT*	2.74	1,319,163.70	0.86%
ITRK LN	70,000	INTERTEK GROUP PLC*	36.77	2,574,245.74	1.68%
JOY	215,900	JOY GLOBAL INC	14.93	3,223,387.00	2.10%
LH	50,400	LABORATORY CORP AMER HLDGS	108.47	5,466,888.00	3.56%
MCD	52,600	MCDONALDS CORP	98.53	5,182,678.00	3.37%
MGGT LN	482,200	MEGGITT PLC*	7.20	3,473,630.36	2.26%
MPI LN	364,022	MICHAEL PAGE INTL*	7.17	2,610,195.14	1.70%
MSFT	123,100	MICROSOFT CORP	44.26	5,448,406.00	3.55%
NESN VX	19,100	NESTLE SA*	75.16	1,435,537.66	0.93%
ORCL	188,400	ORACLE CORPORATION	36.12	6,805,008.00	4.43%
		OTHER		6,690,399.43	4.35%
PYPL	24,900	PAYPAL HOLDINGS INC	31.04	772,896.00	0.50%
1913 HK	1,291,800	PRADA SPA*	3.83	4,950,479.03	3.22%
PUB FP	25,950	PUBLICIS GROUPE*	68.14	1,768,207.75	1.15%
ROR LN	800,000	ROTORK PLC*	2.49	1,994,408.88	1.30%
005930 KS	3,800	SAMSUNG ELECTRONICS CO LTD*	956.72	3,635,535.31	2.37%
SAP GR	50,150	SAP AG*	64.75	3,247,378.30	2.11%
SCL CN	95,300	SHAWCOR LTD*	20.97	1,998,122.14	1.30%
SW FP	20,900	SODEXO*	82.69	1,728,170.20	1.12%
SUN SW	52,000	SULZER AG*	97.99	5,095,423.76	3.32%
UHR VX	8,700	SWATCH GROUP AG*	370.41	3,222,552.84	2.10%
TSM	141,400	TAIWAN SEMICONDUCTOR MFG LTD SPD ADR	20.75	2,934,050.00	1.91%
TNTE NA	1,334,560	TNT EXPRESS NV*	7.62	10,167,252.46	6.62%

FOX

118,000

TWENTY FIRST CENTURY FOX B

27.07

3,194,260.00

2.08%

**TOTAL EQUITIES:**

**141,947,692.84**

**92.39%**

**CASH & EQUIVALENTS (NET OF LIABILITIES):**

11,685,753.05

7.61%

**TOTAL NET ASSETS:**

\$ 153,633,445.89

100.00%

**NO. OF EQUITY POSTIONS:**

**38**

\* Indicates Foreign Security

### Portfolio Holding Submission Disclosure

Except for certain publicly available information incorporated herein, the information contained in these materials is our confidential and proprietary information and is being submitted to you for your confidential use with the express understanding that, without our prior written permission, you will not release these materials or discuss the information contained herein or make reproductions of or use these materials for any purpose other than evaluating a potential advisory relationship with First Pacific Advisors.

**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](http://www.fpafunds.com), by email at [crm@fpafunds.com](mailto:crm@fpafunds.com), toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.**

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