FPA Paramount Fund
Second Quarter 2015 Commentary

Average Annual Total Returns
As of June 30, 2015

	MTD	YTD	1 Year	3 Years**	5 Years**	10 Years**
FPA Paramount	-3.21 %	4.48 %	-4.67 %	12.56 %	12.34 %	6.84 %
MSCI ACWI	-2.35 %	2.66 %	0.71 %	13.01 %	11.93 %	6.41 %
Russell 2500	-0.69 %	4.81 %	5.92 %	18.66 %	17.85 %	9.09 %

** 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, by email at 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.

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.

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Dear fellow shareholders,

During the second quarter of 2015, the Fund rose 1.10% (in U.S. currency), compared to the MSCI All Country World Index's (Net) (the "Index") gain of 0.35%. Year to date, the Fund gained 4.48% (in U.S. currency), versus a gain of 2.66% for the Index.

As always, we believe it is important for shareholders and future investors to understand our performance objective and the return profile implied. Our portfolio management goal is to continuously maximize the Fund's discount to intrinsic value[1], and therefore maximize long-term potential returns. Doing so with a concentrated portfolio means performance will be lumpy, including underperformance like we experienced in 2014. As fellow shareholders in the Funds we manage, we are willing to tolerate this type of short-term volatility because we believe increasing discounts create the best chances for long-term outperformance.

Key Performers

Our worst performing holding in the quarter was **Prada S.P.A.**, which declined (18.88%) (in U.S. currency). Based in Italy, Prada is a global luxury fashion retailer with a strong position in leather goods. In the first half of the year, spending on luxury goods in Asia declined for the first time since 2009. In particular, reduced tourist visits in Hong Kong and Macau and the Chinese government's corruption investigations impacted the industry. Prada, which generates about one-third of its sales in the region, was negatively affected. While near term results have suffered, we are encouraged that sales continue to grow across the developed world, and that Chinese tourists traveling abroad continue to increase spending. We believe Prada is one of a limited number of iconic global luxury fashion brands. The scarcity and perceived quality of its products generate strong profitability, allowing the business to typically produce low 20% returns on capital employed. Management personally holds 80% of the company, and focuses on what it should – cultivating the brand, organic growth and returns on capital. The balance sheet is net cash positive. After the decline, Prada's share price represents a meaningful discount to our estimate of intrinsic value, and remains one of the Fund's largest positions.

Our best performing reported holding in the quarter was **TNT Express**, which returned 34.14% (in U.S. currency). Based in the Netherlands, TNT is a spin-off from Dutch national postal service provider PostNL. The company's primary focus is the transportation of goods across Europe within a pre-agreed day and/or time. TNT has suffered from challenging market conditions given the economic backdrop, as

[1] 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

well as bad governance. We invested last year with a long-term perspective, believing the market structure excessively favors the leading players in European express transport, and new management would be able to exploit significant opportunities for operating efficiency gains.

The unwinding of the discount to intrinsic value happened much faster than we anticipated however, as **FedEx** agreed to an all-cash purchase of the company in April. The transaction is anticipated to close in early 2016.

Activity

This quarter there were several additions to the portfolio, including the following:

Samsung Electronics, based in South Korea, manufactures semiconductors, display panels and consumer electronics including mobile phones. The memory semiconductor industry has consolidated meaningfully over the last five years, leaving Samsung with only two competitors in DRAM[2] and four in NAND.[3] This structure coupled with Samsung's technology leadership provides a strong market position. In the mobile phone business, competition from Apple at the high end and Chinese firms at the low end has squeezed Samsung's profitability. While unlikely to fully recapture its prior smartphone market share, we expect Samsung to remain an industry leader. The company's balance sheet has a sizable net cash position. Trading at 5x operating profit (albeit with significant net cash) and approximately a 10% FCF yield, the share price represented an attractive discount to the business's estimated intrinsic value.[4]

Meggitt, based in the UK, operates an engineering group specializing in aerospace, defense and electronics products. A strong new-build cycle in the aerospace business is currently restraining margins. As the planes enter service, more profitable aftermarket service revenues commence for a decade or longer. Meggitt's management focuses on improving operations and maintaining financial discipline. We believe that the balance sheet is strong, and the share price provided an attractive margin of safety for purchase.[5]

U.S.-based **Google** 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

[2] **DRAM** (**Dynamic random-access memory)** is a type of random-access memory that stores each bit of data in a separate capacitor within an integrated circuit.
[3] **NAND** flash memory is a type of non-volatile storage technology that does not require power to retain data.
[4] **Free cash flow** is a measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.
[5] **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.

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 increased infrastructure investments, return on capital employed exceeded 30% on average over the last five years. The company's financial strength is very robust from balance sheet cash and expected cash generation. We believe the shares represent a reasonable discount to its estimated intrinsic value.

One company exited the portfolio this quarter. **Cognizant Technology Solutions**, based in the U.S., is a world-leading provider of IT services with a unique global delivery model. Limited tangible asset needs and high levels of profitability allowed the business to produce returns on capital employed in excess of 50% on average over the last ten years. Historically, the balance sheet had no debt, and we have a favorable impression of the management team. After increases in the share price, we no longer felt Cognizant's valuation offered an appropriate margin of safety.

Exit, Stage Right

With artificially low (by historical standards) interest rates in place for most of the decade, world equity markets have responded by moving ever-higher. How much longer this action will last is not something we spend any time contemplating. During the ascent, however, we do take note of the sign posts along the way.

One area we pay particular attention to is the private equity industry, which combines insider knowledge about the businesses they own with the ability to assess their value. These firms' behavior in response to the current environment could not be clearer. In the first half of 2015, private equity firms sponsored a record number of IPOs[6], almost twice as many as they did on average over the prior three years.[7] In fact, we recently experienced challenges scheduling management meetings in some European markets (a first in many years of visiting the region) due to an "IPO frenzy" (sic) that swamped our local partners.

Considered another way, the amount of deals private equity firms sponsored relative to all the offerings that came to market is at its highest level of the last decade and about 50% higher than the prior three year average. Some portion of the activity is clearly related to lifecycle as investments in prior funds need to be liquidated. However, after raising record amounts for their next funds[8], the industry is collectively sitting on a huge amount of dry powder and purchase activity is falling.[9] As a general rule, we do not want to sell one of our companies to a private equity firm, or buy one from them, so when we observe the industry tilt toward selling, it makes us nervous and highlights where we believe we are in the market cycle.

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[6] **IPOs** are initial public offerings.
[7] Source: Bloomberg
[8] Private equity global dry powder stood at $1.2 trillion at 3/31/15, up about 25% from the last peak (12/31/07). Source: Preqin
[9] U.S. private equity investment fell by a mid-teens percentage for the two quarters ended 3/31/15 from the prior year period. Source: Preqin

Portfolio Profile

In line with our low-turnover approach, the Fund's overall profile is little changed. We owned thirty-four companies at the end of the quarter. This 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 43% of Fund assets, and position sizes are based on the relative discount to intrinsic value of each (largest weightings correspond to the largest discounts).

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, however. Since many of these are large companies, they typically conduct business on a global basis. That means they often generate significant amounts of their cash flows outside their home countries, rendering traditional country classification less useful.

Investment approach

We focus on what we believe are competitively advantaged businesses, with solid balance sheets and strong cash flows, run by management teams that both operate the businesses well and deploy capital in a value-creative manner, whose shares we can purchase at significant discounts to our estimates of intrinsic value.

We are grateful for your confidence as shareholders of the FPA Paramount Fund, and look forward to continuing to serve your interests.

Respectfully submitted,

The World Value Team

Gregory Herr Portfolio Manager	Pierre O. Py Portfolio Manager
Jason Dempsey Analyst	Victor Liu Analyst

June 30, 2015

FPA investors first

FPA Paramount Fund, Inc.

Portfolio Holdings

6/30/15

TICKER	SHARES	SECURITY	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
ACN	12,875	ACCENTURE PLC CL A	96.78	1,246,042.50	0.71%
ADS GR	80,700	ADIDAS AG*	76.53	6,176,327.95	3.52%
AGK LN	287,007	AGGREKO PLC*	22.61	6,489,310.36	3.70%
ALQ AU	2,412,294	ALS LIMITED*	4.51	10,888,054.17	6.20%
BXB AU	285,000	BRAMBLES LTD*	8.18	2,330,853.06	1.33%
CDI FP	3,400	CHRISTIAN DIOR*	195.21	663,714.54	0.38%
CSCO	74,100	CISCO SYSTEMS INC	27.46	2,034,786.00	1.16%
BN FP	57,100	DANONE S.A.*	64.65	3,691,522.24	2.10%
DGE LN	153,400	DIAGEO PLC*	28.93	4,437,357.41	2.53%
EBAY	24,900	EBAY INC	60.24	1,499,976.00	0.85%
FUR NA	336,275	FUGRO NV*	21.92	7,370,456.15	4.20%
GFS LN	905,250	G4S*	4.22	3,820,496.48	2.18%
GOOG	6,800	GOOGLE INC CL C	520.51	3,539,468.00	2.02%
HYPE3 BZ	602,400	HYPERMARCAS SA*	7.28	4,384,648.93	2.50%
IPL AU	476,483	INCITEC PIVOT*	2.97	1,415,377.57	0.81%
JOY	120,900	JOY GLOBAL INC	36.20	4,376,580.00	2.49%
LH	50,400	LABORATORY CORP AMER HLDGS	121.22	6,109,488.00	3.48%
MCD	52,600	MCDONALDS CORP	95.07	5,000,682.00	2.85%
MGGT LN	482,200	MEGGITT PLC*	7.33	3,533,710.85	2.01%
MPI LN	534,022	MICHAEL PAGE INTL*	8.56	4,572,996.97	2.61%
MSFT	123,100	MICROSOFT CORP	44.15	5,434,865.00	3.10%
NESN VX	12,600	NESTLE SA*	72.20	909,674.31	0.52%
ORCL	218,400	ORACLE CORPORATION	40.30	8,801,520.00	5.01%
		OTHER		7,164,062.10	4.08%
PDCO	29,000	PATTERSON COMPANIES INC	48.65	1,410,850.00	0.80%
1913 HK	1,221,800	PRADA SPA*	4.81	5,879,229.32	3.35%
PUB FP	3,950	PUBLICIS GROUPE*	73.94	292,050.45	0.17%
005930 KS	3,300	SAMSUNG ELECTRONICS CO LTD*	1136.76	3,751,311.13	2.14%
SAP GR	63,150	SAP AG*	69.79	4,407,212.18	2.51%
SW FP	15,900	SODEXO*	94.96	1,509,909.90	0.86%
SUN SW	72,000	SULZER AG*	102.84	7,404,460.13	4.22%
TSM	41,400	TAIWAN SEMICONDUCTOR MFG LTD SPD ADR	22.71	940,194.00	0.54%
TNTE NA	1,334,560	TNT EXPRESS NV*	8.48	11,320,926.22	6.45%
		TOTAL EQUITIES:		**142,808,113.92**	**81.38%**
		CASH & EQUIVALENTS (NET OF LIABILITIES):		**32,684,288.33**	**18.62%**
		TOTAL NET ASSETS:		**$ 175,492,402.25**	**100.00%**
		NO. OF EQUITY POSTIONS:		**32**	

* 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.

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