FPA Capital Fund, Inc.
Third Quarter 2019 Commentary

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 and other matters of interest to a prospective investor. Please read the Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpa.com, by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.

Average Annual Total Returns (%)

As of Date: 9/30/19	Since 8/1/84*	20 Years	15 Years	10 Years	5 Years	3 Years	1 Year	YTD	QTR
FPA Capital Fund ("Fund")	12.08	7.14	4.59	4.78	-2.53	-0.93	-7.54	13.66	-1.58
Russell 2500	11.47	9.21	9.16	12.22	8.57	9.51	-4.04	17.72	-1.28

Periods greater than one year are annualized. Fund performance is shown net of all fees and expenses. Fund performance is calculated on a total return basis which includes reinvestment of all distributions. Fund performance does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares, which would lower these returns. Comparison to any index is for illustrative purposes only. An investor cannot invest directly in an index. The Fund does not include outperformance of any index or benchmark in its investment objectives.

* Inception date was July 11, 1984. An index comparison is not available based on the Fund's inception date; therefore, data from August 1, 1984 is presented.

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. The Fund's expense ratio as of its most recent prospectus is 0.89%. Current month-end performance data, which may be lower or higher than the performance data quoted, may be obtained at www.fpa.com or by calling toll-free, 1-800-982-4372.

Mr. Ahitov was named sole portfolio manager of the Fund effective October 1, 2017. Dennis Bryan and Arik Ahitov had been co-portfolio managers since November 2007 and February 2014, respectively, and managed the Fund in a manner that is substantially similar to the prior portfolio manager, Robert Rodriguez. Mr. Rodriguez ceased serving as the Fund's portfolio manager effective December 2010.

The availability of shares of the Fund to new investors is limited. Please see the Prospectus for more detail.

Please see important disclosures at the end of the commentary.

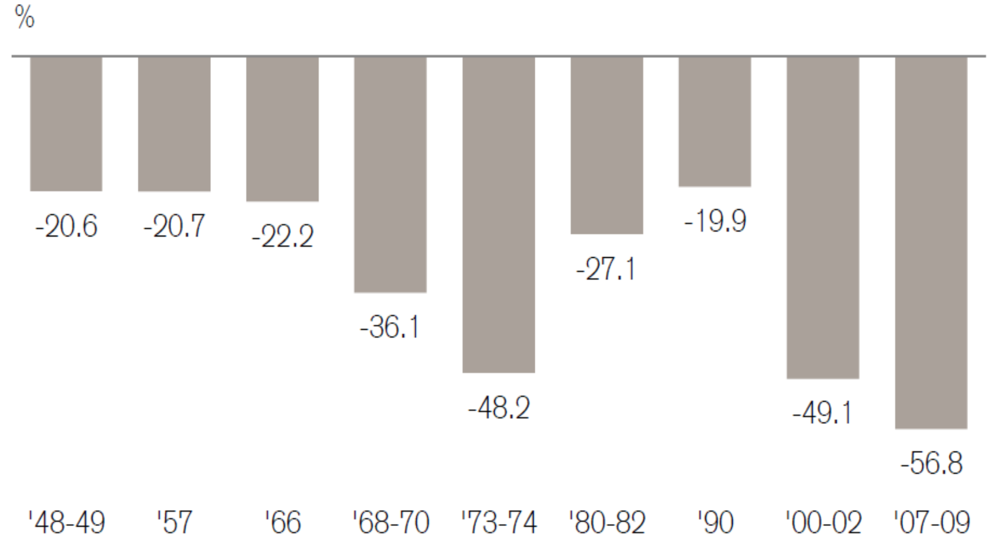
Agreement vs. Truth

I just read a beautifully-written book by Richard Powers called *The Overstory*. It is, by no means, a book about finance or investing. It is about trees, activism, and resistance. One partial sentence from the book has stayed with me: "[The] Overwhelming tendency to mistake agreement with truth."

One such agreement is around how low rates will reignite economic growth. But is that the truth? As I write this letter, more than $17 trillion dollars of global debt has negative yields.[1] What does that mean? My economics-related academic training is limited to a Bachelor's degree in economics and a couple economics classes in graduate school. Maybe that is the reason I am having a very difficult time making sense of what negative rates actually mean. In my view, negative rates force many investors to go further out on the risk curve, but I have not seen the evidence that they drive any meaningful economic growth. How do banks survive in a low/negative rate environment? Economic growth is somewhat predicated on banks being willing to extend credit, but does a bank want to lend at negative rates when they continue to carry all their fixed costs? I can envision a scenario where central banks continue (or rather are forced to continue) their aggressive monetary policies. And while stock market investors might relish these actions in the short term, unless these actions result in economic growth, their efforts will be fruitless.

There was a time when investors worried about an inverted yield curve and sub-50 ISM readings.[2] I do not know whether we are already in a recession or about to be in a recession, but we are in the longest postwar expansion cycle and we are in the middle of a trade war, so should investors not prepare for this risk? In case some of our readers were not investors during previous recessions, here is a summary of what has happened historically during the past 9 recessions:

S&P 500 Declines Around Recessions:[3]



Note: Declines represent peak-to-trough price contraction most closely associated with each recession.

[1] https://www.bloomberg.com/graphics/negative-yield-bonds/

[2] https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1; ISM = Institute for Supply Management

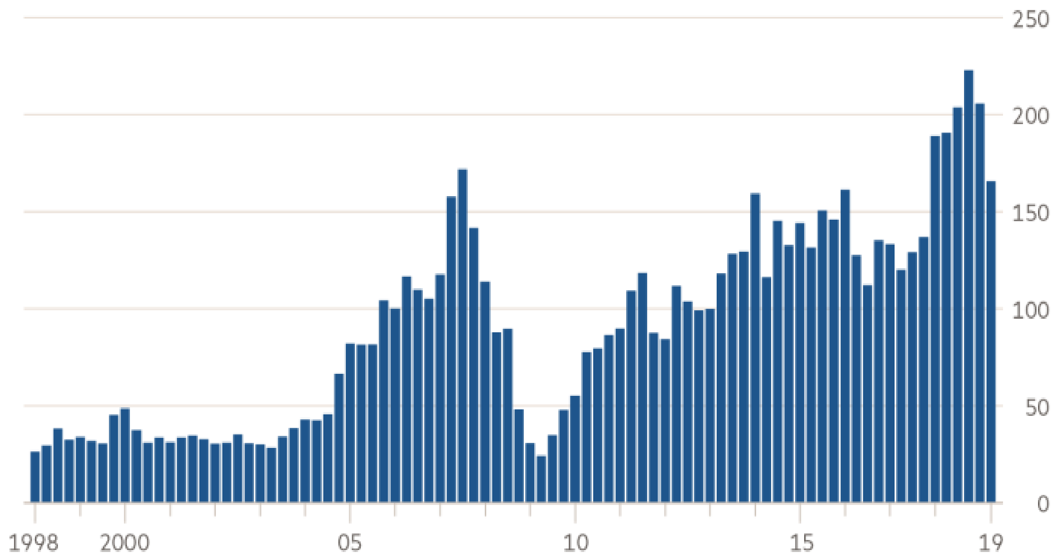
[3] Source: Standard & Poor's, Haver Analytics, Credit Suisse U.S. Equity Strategy – 09/11/2019

A Quick Update to Last Quarter’s Letter

In our second quarter letter we posed the following question: what if corporations prioritize debt payment over stock buybacks? The quarterly share buyback activity is still well-above its 20-year average but it seems like there was a steep decline in the second quarter.

Buybacks:[4] US Companies Curtail Buyback Frenzy

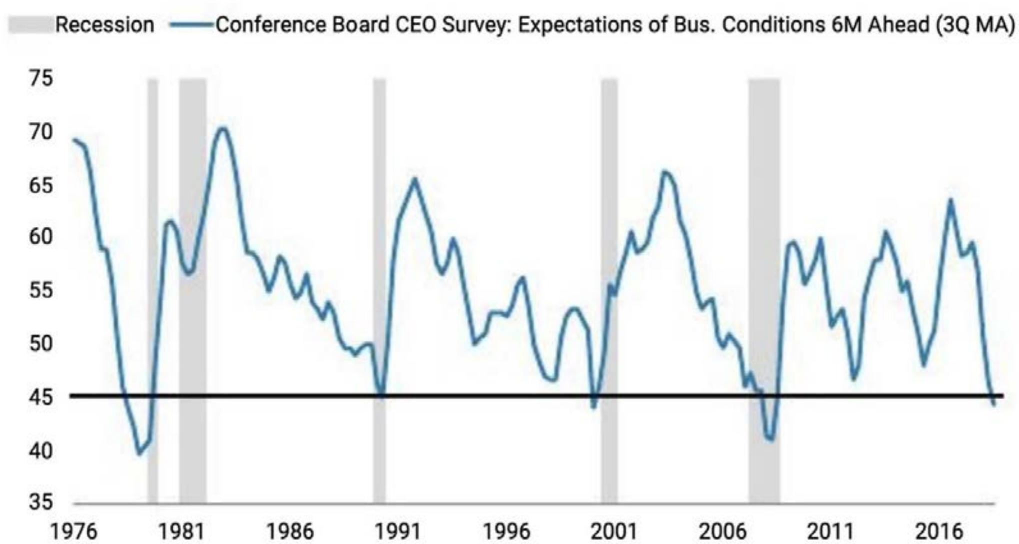
Quarterly share repurchases by S&P 500 companies ($bn)
Q4 1998 – Q2 2019



Q2 2019 are estimates based on 95% of companies reporting.

The decrease in the buyback activity matches with the declining confidence from the leaders of these firms – the fourth lowest level since mid-1970s. And just to hammer the point home, at these levels historically, we’ve either been in a recession or about to enter one.

Conference Board CEO Sentiment Survey



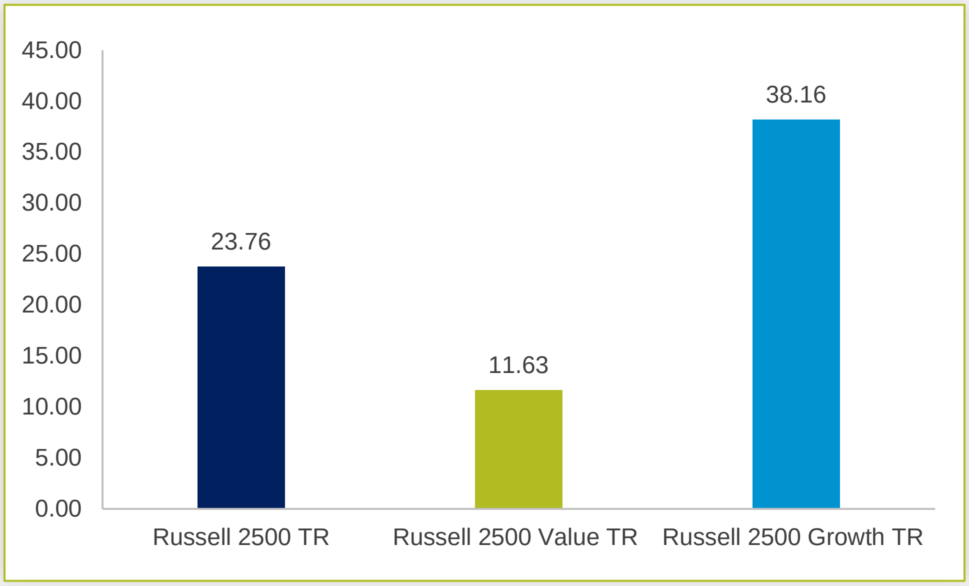
Source: Haver Analytics, Conference Board, Morgan Stanely Research as of 2Q 2019. MA=Moving Average

[4] S&P Dow Jones Indices as depicted in Financial Times – 08/23/2019 - https://www.ft.com/content/8cb379a0-c509-11e9-a8e9-296ca66511c9

Q3 2019 Update[5]

Value stocks have been performing very poorly on a relative basis since the beginning of 2017. The cumulative return of Russell 2500 Index, since the beginning of 2017 is 23.76%. However, Russell 2500 Growth was up 38.16% during that period vs. Russell 2500 Values' paltry performance of only 11.63%. That is a major divergence of performance between value and growth. It has not been easy to be a value investor to say the least.

Russell 2500 Index Returns (%)
2017 to Q3 2019



The Fund was down 1.58% in the third quarter of 2019 vs. down 1.28% for Russell 2500. Also importantly, the invested part of the portfolio performed well at around 20.11% (net) year to date compared to 17.72% for the Russell 2500.[6]

[5] In this *Q3 2019 Update* section, references to individual securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, the Adviser, or the distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

[6] Calculated as net performance/ (1 – average cash balance). **Past performance is no guarantee of future returns.** Comparison to an index is for illustrative purposes only. The Fund does not include outperformance of any index in its investment objectives.

Top 5 / Bottom 5 Contributors[7] –3Q 2019

Top 5	Performance Contribution	Bottom 5	Performance Contribution
3Q19		**3Q19**	
Ambarella	0.85%	Cimarex Energy	-1.46%
Western Digital	0.73%	InterDigital	-0.92%
MKS Instruments	0.57%	Dana	-0.78%
Valmont Industries	0.20%	Cision	-0.36%
Allegiant Travel	0.19%	Ryder System	-0.35%
	2.54%		**-3.88%**

Ambarella, Inc. (AMBA)

Ambarella develops high-end image signal processing and computer vision (CV) chips. These chips are used in security cameras, drones, sport cams, and a growing array of automobile applications (e.g. dash cams, driver monitoring systems). The company has been shifting its business strategy to focus on CV applications primarily for security cameras, Advanced Driver Assistance Systems (ADAS), and Autonomous Vehicles (AV) and has been deemphasizing the consumer end-market.

Our investment thesis for Ambarella is that the stock is overlooked as the firm's legacy consumer business (e.g., GoPro, Drones) has been in decline while the firm's CV business has been driving expenses higher, with limited revenue to date. Our view is that the consumer business is now sufficiently small that further declines don't matter as much and that the CV opportunity, if successfully executed, could add billions of dollar to the firm's valuation. It is our view that this management team has a history of success in the video chip space and we think they are well positioned to be a major competitor in this space.

During 3Q19, we saw early signs that momentum is building for the firm's CV business. They announced that 40 customers across multiple end-markets are currently testing their latest CV chips and on the earnings call management expressed a high level of confidence in their future opportunity set. We expect this momentum to continue and have raised our internal valuation estimates.

Noble Energy (NBL)

Noble Energy is an exploration and production company with diversified operations: onshore in the US (DJ, Eagle Ford and Delaware basins) and offshore in Eastern Mediterranean and West Africa. The company just delivered positive second quarter results with production ahead of and costs lower than expectations, and also lowered capital expenditures for the full year due to US well cost improvements while raising mid-point of the production guidance.[8]

[7] Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the quarter. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. The weights of the top 5 / bottom 5 contributors within the portfolio for the last three months as of September 30, 2019 were: Ambarella (2.3%), Western Digital (2.7%), MKS Instruments (2.7%), Valmont Industries (1.8%), Allegiant Travel (4.7%), Cimarex Energy (2.0%), InterDigital (4.6%), Dana (2.9%), Cision (1.3%), and Ryder System (1.9%). The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. A copy of the methodology used and a list of every holding's contribution to the overall Fund's performance during the quarter is available by contacting FPA Client Service at crm@fpa.com. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed. **Past performance is no guarantee, nor is it indicative, of future results.** Please see important disclosures at the end of this commentary.

[8] Based on Q2'2019 earnings call on August 2, 2019.

Our Core Thesis:[9]

- Free cash flow inflection in 2020 with the completion of a major gas project, Leviathan, and further acceleration in 2021 as it reaches full capacity.
- Lower total production decline rates expected to result in lower-than-industry capital expenditure needs to maintain production levels.[10]
- Gas operations in Israel (which were designed for easy expansion) and low cost discoveries near Cyprus and West Africa.
- Strong management team operationally with appropriate hedging policies and investor friendly capital allocation plans.
- Strong balance sheet with LTM EBITDAX leverage of 2.3x.[11]

Dana Incorporated (DAN)

Dana is a global auto part supplier primarily focused on driveline components (e.g., axles & drive shafts). The company serves three different end-markets: light vehicles, commercial vehicles, and off-highway vehicles. This is a name we know very well and have traded in and out of since 2015. However, the stock performed poorly in 3Q19. We used this period of weakness to add to our position and continue to believe our core thesis (discussed below) remains intact.

Our Core Thesis:

- Better business today than it was historically given the firm's new focus on profitability over market share and less concentrated end-market and geographic exposures.
- Management has improved operational focus by consolidating suppliers, closing plants, and moving up the value chain in terms of technological sophistication.
- Firm is becoming more powertrain agnostic with recent acquisitions increasing their exposure to Electric Vehicle (EV) components.
- A backlog of orders over the past few years have required upfront investments, depressing Free Cash Flow (FCF), but we believe these orders are poised to become meaningful contributors to FCF over the next several years and we expect both FCF and earnings to grind higher.

Following a slight earnings miss in 2Q19, the stock sold off materially and continued to drift lower over the next few weeks as macro risks appeared elevated and the herd stampeded out of cyclical stocks. We took a longer-term view and added to our position on the way down. We felt the sell-off was overdone and the stock was reflecting the near-certainty of a recession. We think the stock is inexpensive.

Interdigital, Inc. (IDCC)

InterDigital monetizes intellectual property in the wireless tech space. The Company is not a basic patent portfolio manager or a patent troll, but rather is an inventor of patents with 340 engineers worldwide. IDCC spends significant sums on research & development and files patents on technology that is considered essential for the wireless device industry and in turn, demands licensing revenues. We like this business because:

[9] Based on SEC filings and FPA estimates.

[10] 'Decline rate' is the annual reduction in the rate of production after a peak in production.

[11] LTM = Last twelve months; 'EBITDAX' is earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses. 'EBITDAX Leverage' is Debt / EBITDAX.

Our Core Thesis:

- There has been tremendous growth in wireless communication and we expect that to continue. We see an investment in InterDigital like selling pickaxes to goldminers in that you don't have to pick a winner, just identify the general growth trend.
- They have contracts with the big two – Apple and Samsung (and many more).
- We see future growth opportunities from 5G and Internet of Things, two trends still in their infancy.
- Strong operating leverage: recurring revenue has been increasing at a greater pace than operating expenses.
- Solid balance sheet and a history of wise capital allocation.

IDCC already has 90% of non-Chinese wireless market under contract. Trade discussions between the US and China have created some short-term struggles, but based on IDCC management input, we believe that IDCC will have long-term success signing up Chinese clients. The market is worried about delays with any new contracts being signed by Chinese clients when the US is in the middle of a trade war, but we see this as an opportunity to add to our position at an attractive price, while we wait for what we believe to be the inevitable.

Conclusion

The FPA Capital Fund had another busy quarter. We initiated three new positions and eliminated three. Similar to what we communicated in our last letter, we still believe that the overall market is overpriced. We continue to invest in only our highest conviction ideas and strive for higher quality in our portfolio. To that end, our quality score for the portfolio increased by more than 35% in the past two years.[12]

Thank you for your support and the trust you placed in us.

Sincerely,

Arik Ahitov

[12] The FPA Capital team scores the Fund's portfolio holdings on a quality ranking on a scale of 0 (lowest quality) to 10 (highest quality). A company's quality score reflects the FPA Capital team's historic investment framework (e.g., market leadership, history of profitability, solid balance sheets, and strong management teams) as well as including industry-related aspects such as competitive strengths and weaknesses based on an internal attribution process. The protfolio quality score does not guarantee the Fund's future performance or success.

Important Disclosures

This update is for informational and discussion purposes only and does not constitute, and should not be construed as, an offer or solicitation for the purchase or sale with respect to any securities, products or services discussed, and neither does it provide investment advice. Any such offer or solicitation shall only be made pursuant to the Fund's Prospectus, which supersedes the information contained herein in its entirety.

The views expressed herein and any forward-looking statements are as of the date of the publication and are those of the portfolio management team. 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, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

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 Fund, the portfolio manager, the Adviser, or the distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

Investments, including investments in mutual funds, carry risks and investors may lose principal value. Capital 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; this may be enhanced when investing in emerging markets. 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. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds.

Value stocks, including those selected by the Fund's portfolio manager, are subject to the risk that their intrinsic value may never be realized by the market and that their prices may go down. Securities selected by the portfolio manager using a value strategy may never reach their intrinsic value because the market fails to recognize what the portfolio manager considers to be the true business value or because the portfolio manager has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

Definitions

Comparison to any index is for illustrative purposes only and should not be relied upon as a fully accurate measure of comparison. The Fund will be less diversified than the indices noted herein, and may hold non-index securities or securities that are not comparable to those contained in an index. Indices will hold positions that are not within the Fund's investment strategy. Indices are unmanaged and do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

The **Russell 2500 Growth TR USD Index** measures the performance of the small to mid-cap growth segment of the U.S. equity universe.

The **Russell 2500 TR USD Index** consists of the 2,500 smallest companies in the Russell 3000 total capitalization universe offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap.

The **Russell 2500 Value TR USD Index** measures the performance of those Russell 2500 companies with lower price-to-book-ratios and lower forecasted growth values.

The **Standard & Poor's 500 Stock Index** (S&P 500) is a capitalization-weighted index which covers industrial, utility, transportation and financial service companies, and represents approximately 75% of the New York Stock Exchange (NYSE) capitalization and 30% of NYSE issues. The S&P 500 is considered a measure of large capitalization stock performance.

EBITDAX is earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses.

EBITDAX Leverage is Debt / EBITDAX and is a ratio that measures a company's ability to pay off its incurred debt.

The Fund is distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.

FPA Capital Fund Inc.
Portfolio Holdings

TICKER/CUSIP	PRINCIAL/ SHARES	SECURITY	COUPON RATE (%)	MATURITY DATE	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
		COMMON STOCK (LONG)					
AAN	108,523	AARON'S INC			64.26	6,973,688	2.9%
AGCO	40,877	AGCO CORP			75.70	3,094,389	1.3%
ALGT	71,341	ALLEGIANT TRAVEL CO			149.66	10,676,894	4.4%
AMBA	77,044	AMBARELLA INC			62.84	4,841,060	2.0%
ARW	85,726	ARROW ELECTRONICS INC			74.58	6,393,445	2.7%
AVT	96,826	AVNET INC			44.49	4,307,305	1.8%
CFFN	533,350	CAPITOL FEDERAL FINANCIAL IN			13.78	7,349,563	3.0%
CRI	51,378	CARTER'S INC			91.21	4,686,187	1.9%
CAKE	156,885	CHEESECAKE FACTORY INC/THE			41.68	6,538,967	2.7%
CISN	520,424	CISION LTD			7.69	4,002,061	1.7%
DAN	482,158	DANA INC			14.44	6,962,362	2.9%
FHB	200,439	FIRST HAWAIIAN INC			26.70	5,351,721	2.2%
FI	545,088	FRANK'S INTERNATIONAL NV*			4.75	2,589,168	1.1%
GNTX	86,778	GENTEX CORP			27.54	2,389,432	1.0%
GPK	445,140	GRAPHIC PACKAGING HOLDING CO			14.75	6,565,815	2.7%
IDCC	217,065	INTERDIGITAL INC			52.47	11,389,401	4.7%
ISBC	780,928	INVESTORS BANCORP INC			11.36	8,871,342	3.7%
MGLN	37,025	MAGELLAN HEALTH INC			62.10	2,299,253	1.0%
MKSI	52,445	MKS INSTRUMENTS INC			92.28	4,839,625	2.0%
NBL	512,086	NOBLE ENERGY INC			22.46	11,501,452	4.8%
		OTHER COMMON STOCK (LONG)				11,681,623	4.8%
R	50,024	RYDER SYSTEM INC			51.77	2,589,742	1.1%
MTN	15,270	VAIL RESORTS INC			227.56	3,474,841	1.4%
VMI	17,181	VALMONT INDUSTRIES			138.44	2,378,538	1.0%
WDC	84,327	WESTERN DIGITAL CORP			59.64	5,029,262	2.1%
		TOTAL COMMON STOCK (LONG)				**146,777,135**	**60.9%**
		TOTAL INVESTMENT SECURITIES				**146,777,135**	**60.9%**
		U.S. GOVERNMENT AND AGENCIES (SHORT-TERM)					
912828UF5	7,500,000	UNITED STATES TREASURY NOTE/BOND	1.125	12/31/2019	99.80	7,484,693	3.1%
912828U32	10,000,000	UNITED STATES TREASURY NOTE/BOND	1.000	11/15/2019	99.89	9,989,258	4.1%
912828F62	10,000,000	UNITED STATES TREASURY NOTE/BOND	1.500	10/31/2019	99.95	9,994,727	4.1%
912828K58	7,500,000	UNITED STATES TREASURY NOTE/BOND	1.375	04/30/2020	99.71	7,478,101	3.1%
912828UV0	7,000,000	UNITED STATES TREASURY NOTE/BOND	1.125	03/31/2020	99.63	6,973,750	2.9%
912828UQ1	10,000,000	UNITED STATES TREASURY NOTE/BOND	1.250	02/29/2020	99.73	9,972,559	4.1%
9128283S7	10,000,000	UNITED STATES TREASURY NOTE/BOND	2.000	01/31/2020	100.02	10,002,051	4.1%
		TOTAL U.S. GOVERNMENT AND AGENCIES (SHORT-TERM)				**61,895,138**	**25.7%**
		REPURCHASE AGREEMENTS					
	31,779,000	STATE STREET BANK/FICC REPO		10/01/2019		31,779,000	13.2%
		TOTAL REPURCHASE AGREEMENTS				**31,779,000**	**13.2%**

TICKER/CUSIP	PRINCIAL/ SHARES	SECURITY	COUPON RATE (%)	MATURITY DATE	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
		CASH & EQUIVALENTS				597,682	0.2%
		TOTAL CASH & EQUIVALENTS				**94,271,820**	**39.1%**
		TOTAL NET ASSETS				**241,048,955**	**100.0%**
		NUMBER OF LONG EQUITY POSITIONS					**24**
		NUMBER OF LONG FIXED INCOME CREDIT POSITIONS					**7**

* Indicates foreign security.

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Investments in mutual funds carry risks and investors may lose principal value. Capital 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; this may be enhanced when investing in emerging markets. Securities of smaller, less well-known companies involve greater risks and they can fluctuate in price more than larger company securities. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds. You risk paying more for a security than you received from its sale.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods. Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks.

The return of principal in a bond investment is not guaranteed. Bonds have issuer, interest rate, inflation and credit risks. Lower rated bonds, callable bonds and other types of debt obligations involve greater risks. Interest rate risk is when interest rates go up, the value of fixed income securities, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principle due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults the security may lose some or all its value.

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