FPA U.S. Value Fund, Inc.
First 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: 3/31/2019	3 Years	1 Year	YTD	QTD	10 Years*	5 Years*
FPA U.S. Value Fund, Inc. ('Fund')	4.09	5.99	15.27	15.27	12.81	3.38
S&P 500	13.51	9.50	13.65	13.65	15.92	10.91
Morningstar Large Blend Average	11.85	6.91	12.91	12.91	13.98	8.53
Russell 2500	12.56	4.48	15.82	15.82	16.23	7.79

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.

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 net expense ratio as of its most recent prospectus 1.13%. 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.

The total expense ratio is 1.22% (as of most recent prospectus). The Investment Advisory Agreement ("IAA") between the Fund and FPA requires FPA to reduce its investment advisory fee to the extent necessary to reimburse the Fund for any annual expenses (exclusive of interest, taxes, the cost of brokerage and research services, legal expenses related to portfolio securities, and extraordinary expenses such as litigation, merger, reorganization or recapitalization) in excess of 1.50% of the first $30 million and 1% of the remaining average net assets of the Fund. This agreement is coterminous with the IAA, and the IAA is renewed annually as of October 1 each year. The IAA may be terminated by the Board, by the vote of a majority of the Fund's shareholders, or by the Adviser. The current term of the IAA runs through September 30, 2019.

* On September 1, 2015, the Fund changed its name to FPA U.S. Value Fund, Inc., and the current portfolio manager assumed management of the Fund on that date. Contemporaneous with this change, the Fund transitioned to its current investment strategy. Performance prior to September 1, 2015 reflects the performance of the prior portfolio manager and investment strategy. Performance prior to September 1, 2015 is not indicative of performance for any subsequent periods. The transition took place during time period from September 1, 2015 to September 30, 2015.

Please see important disclosures at the end of the commentary.

Introduction

In the first quarter, the FPA U.S. Value Fund, Inc.'s ("Fund") performance was 15.27%. It outperformed the total return of the S&P 500 Index ("Index" or "S&P 500") by 1.62%.[1] Both our security selection and position weightings helped deliver this outperformance in Q1. A majority of the biggest contributors to the Fund's returns were among our largest investments.

In just a few short months, it seems as though a lot has changed and at the same time, much has remained the same. What we know for sure is that many securities' prices have increased quite a bit in a short period. In our view, at the end of 2018 the market was pricing many U.S. equities across a variety of industries at attractive valuations. Now many of these companies are trading at less attractive valuations. As a result, we have chosen to trim or sell our holdings in select securities as well as to write some covered call options. Thus, our cash and equivalents position rose from 2.1% to 4.5% over the past three months. In addition, we hedged 0.8% of the portfolio with covered call options. By no means is this a bearish stance. Given where valuations are currently, we just prefer to have a little more dry powder. Additionally, we believe some of our largest investments remain among the most undervalued in our portfolio, which may bode well for future returns.

What generally remains the same is that industries (and the companies within them) with above average secular growth tend to be the best performers in the market. Low-multiple stocks of companies struggling to grow continue to have difficulty keeping up with the Index's return.

As we have pointed out in several prior commentaries, many of the Index's outperformers tend to be technology-related businesses or beneficiaries of technology. However, history has shown that several of today's winners will be disrupted by new technology and/or simply have more future competition, which may lead to average growth and average return on invested capital. It is our job to try to identify these risks ahead of time and monitor them closely. This allows us to remain mentally flexible and to change our minds as we get new information that may invalidate an investment thesis.

Portfolio Commentary

Compared to the broader market, we believe our portfolio is of higher quality and has greater potential for earnings growth.

	FPA U.S. Value Fund	S&P 500
Large Capitalization Holdings % of Portfolio	88.8%	96.8%
Top 5 Holdings % of Portfolio	31.1%	16.1%
Top 10 Holdings % of Portfolio	47.4%	21.3%
Foreign Securities % of Portfolio	6.3%	0.0%
12-Month Forward P/E[2]	18.9x	17.2x

[1] Source: Morningstar. Comparison to the S&P 500 Index is being used as a representation of the "market" and is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. **Past performance is no guarantee, nor is it indicative, of future results.**

[2] P/E (Price-to-Earnings Ratio) is a ratio used to value a company by measuring its current share price relative to its per-share earnings.

Price/Book[3]	4.3x	3.4x
Return on Equity[4]	26.2%	23.9%
EPS[5] Growth Historical (2-year, $-weighted median)	29.5%	20.9%
EPS Growth Forecast (2-year, median)	16.8%	12.9%
Revenue Growth Historical (2-year, $-weighted median)	16.0%	11.9%
Revenue Growth Forecast (2-year, median)	10.6%	6.8%
Debt/Equity[6]	1.2x	1.3x
Median Market Capitalization[7] (billions)	$110.1	$21.8
Weighted Average Market Cap (billions)	$369.5	$231.6

Source: FPA, Mellon, Capital IQ. Data as of March 31, 2019.

As of March 31, 2019, the Fund was invested in 62 companies (55 of which are disclosed), including 54 that are in the S&P 500. That leaves 446 other Index positions that are not in our portfolio. Moreover, since the 54 positions in common made up approximately 40% of the S&P 500's weighting, approximately 60% of U.S. Value's portfolio is different relative to the index. At the same time, a majority of those 54 positions were overweight in the Fund relative to the Index. The Fund's remaining eight investments were predominantly large-cap foreign companies and mid-cap U.S. companies. Combined, these eight companies made up 12.4% of the portfolio. Cash was 4.5% and covered call options made up 0.1% of the portfolio. The Fund continues to have a high active share[8] compared to the S&P 500.

In terms of geography, 89.2% of the portfolio was in U.S. companies, while 6.3% was in foreign equities. By market capitalization, 88.8% of the disclosed portfolio was in large-cap companies, with just over 50% of the portfolio invested in mega-caps—companies with market values above $200 billion. The portfolio's weighted average market cap was approximately $370 billion, while the Fund's median market cap was approximately $110 billion.

Regarding portfolio concentration, the Fund's top five positions made up 31.1% of the Fund compared to approximately 16.1% for the S&P 500. The Fund's top 10 disclosed positions made up 47.4% of the portfolio versus 21.3% for the index. Over time, our goal is to reduce the weighting of some of the Fund's largest positions and increase some of the Fund's smallest ones as our conviction grows.

From an industry exposure standpoint, the portfolio had disclosed investments in six of the 11 sectors in the S&P 500. Combined, those six sectors made up approximately 78% of the S&P 500 and 91% of the Fund's disclosed portfolio. Relative to the S&P 500, the portfolio is overweight communication services, consumer discretionary and industrials, roughly in-line with information technology and financials, and underweight healthcare. At the end of the quarter, the Fund did not have any disclosed investments in consumer staples, energy, utilities, real estate and materials. Collectively, those five sectors made up about 22% of the S&P 500.

[3] Price/Book ratio is the current closing price of the stock by the latest quarter's book value per share.

[4] Return on Equity is the amount of profit computed by dividing net income before taxes less preferred dividends by the value of stockholders' equity.

[5] EPS, or Earnings per Share, is the portion of a company's profit allocated to each share of common stock.

[6] Debt/Equity (D/E) Ratio is calculated by dividing a company's total liabilities by its shareholder equity. These numbers are available on the balance sheet of a company's financial statements. The ratio is used to evaluate a company's financial leverage.

[7] Market Cap, short for market capitalization, refers to the total dollar market value of a company's outstanding shares.

[8] Active share is a measure of the Fund's holdings that differ from the holdings in the Fund's illustrative benchmark index. The Fund's Active Share as of March 31, 2019 was 91.2%.

Sector	FPA U.S. Value Fund	S&P 500
Information Technology	22.40%	21.20%
Communication Services	20.80%	10.10%
Industrials	14.10%	9.50%
Consumer Discretionary	13.60%	10.10%
Financials	12.90%	12.70%
Health Care	7.20%	14.60%
Consumer Staples	0.00%	7.30%
Energy	0.00%	5.40%
Utilities	0.00%	3.30%
Real Estate	0.00%	3.10%
Materials	0.00%	2.60%
Total	**91.0%**	**100.0%**
Other	**4.6%**	
Call options	**-0.1%**	
Cash and equivalents (net of liabilities)	**4.5%**	

Source: FPA, Mellon. Data as of March 31, 2019. Figures may not add up to 100% due to rounding. Sector classification scheme reflects GICS (Global Industry Classification Standard). Portfolio composition will change due to ongoing management of the Fund. Comparison to an index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. Please refer to the end of this commentary for important disclosures.

Q1 2019 Winners and Losers[9]

Winners	Performance Contribution	Losers	Performance Contribution
Facebook	1.50%	Cigna	-0.09%
Airbus SE	1.40%	Berkshire Hathaway	-0.04%
Alphabet	1.13%	United Healthcare	-0.03%
Amazon.com	1.03%	Undisclosed	-0.02%
Microsoft	0.86%	Activision Blizzard	-0.01%

In looking at the top five detractors to performance in the first quarter, two of the largest detractors (Cigna and United Healthcare) were healthcare insurance companies, which have suffered due to increased rhetoric from Washington D.C. about a potential move to Medicare-for-All, which could bring the United States one-step closer to a Single Payer System.

[9] Reflects top contributors and top detractors to the Fund's performance based on contribution-to-return. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. This is not a recommendation for a specific security and these securities may not be in the Fund at the time you receive this report. 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 at crm@fpa.com. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com. **Past performance is no guarantee, nor is it indicative, of future results.** Please see **Important Disclosures** at the end of this commentary.

To put these two investments into broader perspective, we entered the quarter with 10.0% exposure to healthcare compared to 15.5% for the S&P 500 and ended the quarter with just 7.2% exposure. We are hesitant to have more exposure to the sector for two key reasons.

First, we continue to believe that the U.S. healthcare system is extremely wasteful relative to other first-world countries. Several of these countries spend far less on healthcare as a percentage of their GDP yet have similar or better health outcomes for the same procedures. This means many U.S. healthcare businesses benefit from this overspending and may be potentially overearning. With that said, we do not know if or when the U.S. healthcare system will meaningfully change due to government regulation, employer and/or consumer pushback, greater price transparency, etc. However, as time goes on and spending continues to grow well above the rate of inflation, the odds increase that something has to give.

U.S. healthcare insurers have been the beneficiaries of this largess and the Fund has participated by investing in some of the largest players in the industry. Thanks to a multi-payer system, we believe these are very good businesses currently, but they could easily be not as good in the future should the government decide to do something to curb growth in healthcare spending. As a result, we trimmed our exposure to this industry and therefore the healthcare sector overall. Our best guess is the status quo remains for some time. Nevertheless, we felt it prudent to take some money off the table.

Second, the good businesses that are less susceptible to the potential impacts of new government regulation tend to trade at above average multiples. We have refrained from investing in them because those multiples remain higher, on average, than the multiples for the stocks of companies with similar or greater growth rates across a variety of industries.

On the other hand, companies in the sector with below average multiples appear to be perpetually growth challenged. Many of these are services related businesses that had good growth historically. Some industries that fall into this category are pharmaceutical distributors, retail pharmacies, pharmacy benefit managers (PBMs) and clinical laboratory testing companies. In fact, you can see the inflection point, which took place over the past few years when these industries essentially stopped growing while the major health insurers had a big earnings resurgence. These insurers have been able to capture a greater share of profits within the U.S. healthcare system at the expense of others.

It is our opinion that the largest health insurers have become so big and powerful that many services companies are now price takers, with little ability to push back on unattractive terms. For example, if a lab or retail pharmacy were excluded from a large insurer's network, the fixed cost deleverage to their business would be untenable. For a case study on this, one can look at the spat Walgreens had with Express Scripts (one of the largest PBMs now owned by Cigna) in 2011-12 over reimbursement rates. Once Express Scripts excluded Walgreens from its network, Walgreens lost approximately 7% of its U.S. retail pharmacy prescription volume, which translated into an approximate 15% decline in total operating profit year-over-year. Ultimately, Walgreens' then CEO and CFO lost their jobs. New management came in and caved to Express Scripts' terms. [10]

Until the healthcare system construct changes, we believe healthcare services businesses that largely rely on insurance reimbursement will continue to experience a slow bleed-out of their profits to the largest insurers. This gradual capitulation allows management of these services companies to keep their jobs and prevents them from collapsing outright, which would limit customer choice and set off alarm bells for government regulators. In fact, in our due diligence we discovered that reimbursement rates for smaller players could be at higher levels than for larger players, which seems counterintuitive given their inferior negotiating position. However, the large health insurers and PBMs know that as long as they help keep the smaller players in business, they are less likely to attract government attention and additional regulation.

[10] Walgreens Co., Securities and Exchange Commission Form 10-K and 10-Q for Fiscal Year 2011 and 2012.

One of the Fund's largest contributors to performance in the first quarter was Facebook (NASDAQ: FB). We have discussed our investment in FB in prior commentaries so we will refer you to those to get a more detailed understanding of our investment thesis, which has not changed much since our initial investment in late 2017.

Should the negative headlines ever abate for FB, the market might finally focus more on the fundamentals. If that happens, we believe the market will ascribe a more appropriate, higher multiple relative to the quality of its business and robust growth.

It has now been about a year since the Cambridge Analytica fiasco was unearthed, which rightly led to a public examination of a variety of issues (privacy concerns, election tampering, fake accounts, hate speech, etc.) regarding the misuse of the Facebook platform. With so much negativity surrounding the company, one might reasonably expect there to be a meaningful impact to its growth.

However, if there has been an impact, it is hard to tell from these numbers. Over the past year, monthly active users (MAUs) in the United States and Canada grew 1.3% to 242 million, while Daily Active Users (DAUs) grew 1.1% to 186 million. In Europe, despite the passage of General Data Protection Regulation (GDPR), MAUs grew 3.0% to 381 million while DAUs grew 1.1% to 282 million. In the Asia-Pacific, Facebook's MAUs grew 14.4% to 947 million while DAUs grew 15.6% to 577 million. In the Rest of World, MAUs and DAUs both grew 8.4% to 750 million and 478 million, respectively. In total, global MAUs grew 9.0% while DAUs grew 8.7%.[11]

In the fourth quarter of 2018, average revenue per user grew by 30.3% in the United States and Canada, 23.9% in Europe, 16.5% in the Asia-Pacific and 13.4% in the Rest of World. Advertising revenue grew by 31.9% in the United States and Canada, 27.7% in Europe, 34.0% in the Asia-Pacific and 23.6% in the Rest of World. Total advertising revenue grew 30.2% while payments and other fees grew 42.0% resulting in total revenue growth of 30.4%.

Normally, this level of revenue growth would lead to robust profit growth. However, since FB needed to invest more in its business to try to curb the misuse of its platforms and maintain users' trust, operating income only grew by 6.4%. While capital investments more than doubled in 2018 to $13.9 billion, free cash flow remained nearly flat at $15.4 billion for the year.

At quarter-end, backing out its net cash position, FB was trading at approximately 19x forward earnings. We think this is very compelling within the context of more than 20% expected annual revenue growth over the next few years. At some point in the future, we believe expense growth and capital investment spending should normalize, after which the expected revenue growth could potentially translate into 20% or better annual EPS growth.[12]

The key things we focus on with FB are whether management is doing the right things to maintain the integrity of its platforms over the long-term so that its user base continues to stay engaged so it can grow. Thus far, we believe that is the case. If that persists, FB will likely find more ways to monetize this high level of user engagement.

Additionally, Instagram continues to grow very fast. It is likely cannibalizing Facebook's growth, particularly in the United States, Canada and Europe. Instagram is such a unique platform in that it appeals to people across a wide range of ages, races and ethnicities. Moreover, WhatsApp is by far the dominant messaging platform outside of North America and China. Both platforms now have over one billion MAUs and are a big part of FB's

[11] Source: Facebook Q4'18 Presentation. Data as of 12/31/18.
[12] Source: Capital IQ. All data in the paragraph based on consensus estimates. There is no guarantee these targets will be achieved.

future growth.[13] FB acquired Instagram ($1 billion) in 2012 and WhatsApp ($19 billion) in 2014. We do not really care which app people use, just as long as they remain hooked on social media and a lot of their usage continues to be on at least one of FB's platforms.

Lastly and maybe most importantly, we believe what many market participants view as the total addressable market for FB—which is defined as advertising based on historical spending across print, media, billboards, directories and online - vastly understates the true addressable market. For example, historically most retail businesses spent money on several retail locations (including store build out, rent, labor to staff stores, expense to get goods from a distribution center to its stores, etc.). In essence, many of these expenses are the cost of brand awareness for a product or service. These expenses do not count as advertising expenses even though at their core much of that is what they are.

Now, many businesses can be successful without spending as much on a retail presence or skipping it altogether. Those companies can reallocate those resources toward more effective, targeted brand awareness through online search and social media to help fuel a direct-to-consumer business model. It is worth noting that, this trend ties into the investment thesis behind a number of other companies in our portfolio. Part of the reason for this is that a very wise man has repeatedly told me over the years, "Let the trend be your friend".

Closing

We are optimistic that the Fund will generate good absolute and relative returns compared to the S&P 500 going forward. To that end, we further increased our alignment with fellow shareholders by making opportunistic purchases of the Fund with our personal capital during the beginning of the first quarter—taking advantage of what we believe to be attractive prices for a reasonably diversified portfolio of high-quality companies.

We look forward to delivering value for our shareholders over the coming years. Thank you for your confidence and continued support.

Respectfully submitted,

Gregory R. Nathan
Portfolio Manager
April 2019

[13]Source: www.statista.com/statistics/258749/most-popular-global-mobile-messenger-apps/; www.buzzfeednews.com/amphtml/charliewarzel/why-facebook-bought-whatsapp; www.vox.com/2017/4/9/15235940/facebook-instagram-acquisition-anniversary

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 this 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.fpafunds.com.

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; these risks may be heightened 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 may 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 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 manager considers 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.

Please consult your tax advisor regarding higher capital gains distributions due to a change in portfolio strategy.

Index / Category Definitions

Debt/Equity is the measure of a company's financial leverage calculated by dividing its total liabilities by stockholder's equity.

EPS (Earnings per share) is the portion of a company's profit allocated to each outstanding share of common stock.

Price-to-Book (P/B) - A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

Return on Equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

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 may 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 **S&P 500 Index** includes a representative sample of 500 hundred companies in leading industries of the U.S. economy. The index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

The **Russell 2500 Index** consists of the 2,500 smallest companies in the Russell 3000 total capitalization universe and is considered a measure of small to mid-capitalization stock performance.

Morningstar Large Blend Average consists of portfolios that invest in a variety of large US stocks. Stocks in the top 70% of the capitalization of the US equity market are defined as large-cap. The blend style is assigned to funds where neither growth nor value characteristics predominate. The average does not reflect the effect of fund sales charges.

 Past performance is no guarantee of future results.

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