



SOURCE CAPITAL, INC.

2020

ANNUAL REPORT

for the year ended December 31

Beginning on January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, we intend to no longer mail paper copies of the Fund's shareholder reports, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary, such as a broker-dealer or bank. Instead, the reports will be made available on the FPA Funds website (fpa.com/funds), and you will be notified by mail each time a report is posted and provided with a website link to access the report. If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. If you prefer to receive shareholder reports and other communications electronically, you may update your mailing preferences with your financial intermediary, or enroll in e-delivery at fpa.com (for accounts held directly with the Fund).

You may elect to continue to receive paper copies of all future reports free of charge. If you invest through a financial intermediary, you may contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. If you invest directly with the Fund, you may inform the Fund that you wish to continue receiving paper copies of your shareholder reports by contacting American Stock Transfer & Trust Company at (800) 279-1241. Your election to receive reports in paper will apply to all funds held with the FPA Funds or through your financial intermediary.

SOURCE CAPITAL, INC.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS:

Overview

Source Capital Inc.'s ("Source" or "Fund") net asset value (NAV) increased 11.81% for the fourth quarter and 5.98% for the full year 2020.

The Fund's performance and that of its underlying equity exposure can be considered in the context of the following illustrative indices.

Exhibit A: Performance versus Indices¹

	<u>Q4 2020</u>	<u>2020</u>
Source Capital (NAV)	11.81%	5.98%
Source Capital—Equity (Gross)	14.87%	12.94%
60% MSCI ACWI/40% BB U.S. Agg	9.04%	13.49%
60% S&P 500/40% BB U.S. Agg	7.54%	14.73%

Stock prices generally appreciated over the last three months; and in many cases increased by quite a lot. The Fund showed an outsized improvement in the fourth quarter, which was generally a function of the many positions we pointed out as being inexpensive in our [Q3 2020 commentary](#).² And still, in our assessment, not a lot has changed in the underlying fundamentals of the companies held in the portfolio.

We continue to take necessary steps to drive yield and total return, but it will take time to appropriately execute. We can report the following:

- We continue to increase the Fund's exposure to private credit. Stockholders in the Fund can benefit from the Fund's closed-end fund (CEF) structure, which allows a greater percentage of the portfolio to be invested in such higher yielding, less liquid or private assets because a CEF does not have the daily liquidity needs of an open-end mutual fund. To date, we have allocated 11.7% of net assets to private loans of which 7.5% has been invested. We believe the Fund's increasing exposure to this asset class should drive a higher sustainable yield and total return as we reduce the Fund's current 12.4% cash position.
- The Fund has secured a line of credit to be drawn once we have deployed the available cash. The addition of leverage will only be used in the context of the Fund's higher yielding fixed income investments. We believe the benefit of a relatively wide spread to the Fund's cost of capital should eventually enhance the Fund's yield and total return.
- The Fund repurchased 53,795 shares in 2020's fourth quarter at an average weighted discount to net asset value (NAV) of 11.3%, representing 0.6% of the outstanding shares at the beginning of the period.
- The Fund began monthly distributions in 2021 with distributions of \$0.083 per share in both January and February. The distribution rate was increased 46% to \$0.12167 per share for March, April and May, in recognition of the Fund's additional distributable earnings and as expectations for the strategy to generate a higher yield begins to bear fruit.³

We hope the Fund's reorientation will achieve its performance goals and strike a chord in our shareholder base that will allow it to trade closer to its NAV (on average over a full market cycle).

¹ Comparison to the indices is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index. No representation is being made that any account, product or strategy will or is likely to achieve profits, losses, or results similar to those shown. The long equity gross returns of the Fund are presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. Long equity includes common and preferred stocks. Long equity performance does not represent the return an investor in the Fund can or should expect to receive. Fund shareholders may only invest or redeem their shares at market value (NYSE: SOR), which may be higher or lower than the Fund's net asset value (NAV).

² <https://fpa.com/docs/default-source/funds/source-capital/literature/quarterly-commentaries/source-capital-commentary-2020-q3-final.pdf?sfvrsn=4>.

³ There is no guarantee that the Fund will achieve its objectives. The Fund's distribution rate may be affected by numerous factors, including changes in realized and projected market returns, Fund performance, and other factors. There can be no assurance that a change in market conditions or other factors will not result in a change in the Fund's distribution rate at a future time.

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Portfolio discussion

Equity

It's been a year of extreme, nerve-racking volatility. Our longer-term mindset is our anchor in choppy seas, guiding us to seek out what is currently out of favor while avoiding the inflated valuations of what is in vogue. However, these portfolio decisions can cause us to appear out of touch with the crowd—hopefully a temporary phenomenon, and incumbent on us to prove to you over time.

In a communication earlier this year, we shared what we believed would be temporary impacts on certain businesses: that people would get on planes and stay in hotels again, and what that might mean for the travel and aerospace industries, for example.

We owned and subsequently purchased many stocks that experienced dramatic price declines in the first quarter. The shares of these companies were priced at such low valuations, suggesting that their businesses would never recover.

As a result, the Fund saw more changes in its portfolio last year than it has had in many years. We reset the portfolio by reducing or eliminating certain holdings that in our view offered less attractive long-term potential, while increasing existing and new positions in those businesses that we believed were temporarily harmed by the global pandemic but whose stock prices were disproportionately decimated.

The contributors to and detractors from the Fund's trailing 12-month returns are listed below and reflect the realities of 2020: technology and other growth stocks performed well, while more cyclical "value" stocks did not.

Exhibit B: Trailing Twelve Month Contributors and Detractors as of December 31, 2020⁴

<u>Contributors</u>	<u>Perf. Cont.</u>	<u>Avg. % of Port.</u>	<u>Detractors</u>	<u>Perf. Cont.</u>	<u>Avg. % of Port.</u>
Alphabet	1.54%	4.8%	Howmet Aerospace	-1.45%	1.8%
Broadcom	1.21%	2.6%	McDermott (multiple issues)	-1.31%	0.9%
Facebook	0.93%	2.3%	AIG	-1.10%	2.7%
Nexon	0.92%	0.93%	Wells Fargo	-1.04%	1.6%
Charter	0.91%	2.3%	Ally Financial	-0.90%	0.4%
	<u>5.51%</u>	<u>12.9%</u>		<u>-5.80%</u>	<u>7.3%</u>

Technology: It's no great surprise that the top four contributors to performance over the last year were our technology investments that floated upwards on the rising tide. Despite taking some profits, we retained many of these positions. These companies share the common characteristic that they operate successful business models and trade at valuations that, although not as inexpensive as they once were, we believe will still provide a reasonable return in the years to come.

Financials: The financials in our portfolio underperformed as investors sold shares in a panic, fearing that the economic downturn would cause such damage to loan and investment portfolios and that there would be, in general, less demand for their products and services. The market was correct that their businesses would be harmed, but not to the degree that was ultimately priced into their stocks. There has been some recognition of this as financials were strong performers in Q4 and in the early days of 2021. Given strong balance sheets, a post-COVID economy within sight, stimulus packages, and the Fed's security purchase support, combined with inexpensive valuations, we suspect that there is still gas left in their collective tank.

Aerospace: We own an aerospace supplier, Howmet, which saw its stock price decline by around two-thirds from its Q1 2020 highs. Howmet's price increased about three times from its low and ended the year at its all-time high.

When things look bleakest, the prospects for returns are typically brightest. As much as that might have been the case earlier this year, in our assessment the opposite is true today. Now that the stock market has run to new highs, we would suggest that we have borrowed from future returns.⁵ In general, the more you pay for an asset, the lower you can expect for its future return.

Past performance is no guarantee, nor is it indicative, of future results.

⁴ Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the trailing twelve months ("TTM"). Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. 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 TTM 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.

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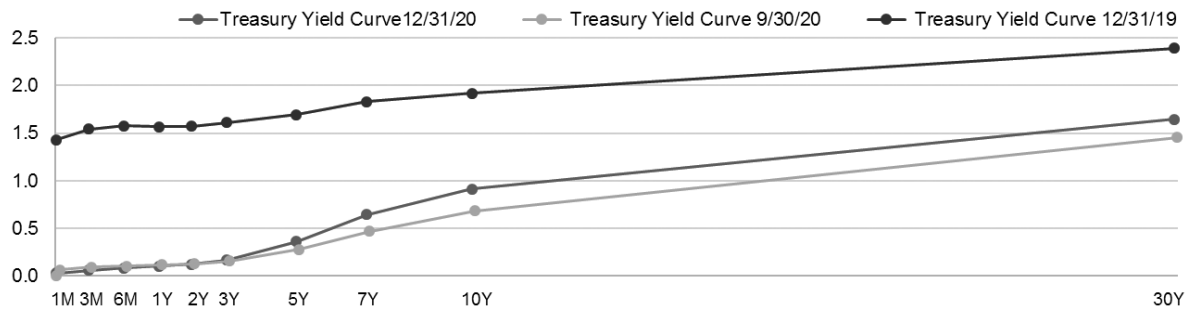
⁵ Unless otherwise noted, any references to "market" in this Commentary refers to the S&P 500 Index.

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Credit

While COVID-19 has put the world in a more precarious position than it was in before March, the markets suggest otherwise. The chart below shows that, over the past 12 months, Treasury yields have declined by approximately 145 basis points (bps) for bonds maturing within three years and approximately 120-130 bps for bonds maturing in five to seven years.

Exhibit C: Treasury Yield Curve⁶



We have frequently commented about why it's important to invest based on yield rather than spread. Dollars of return is what ultimately drives performance. Moreover, dollars of return offset default-related losses. Expected future dollars are measured by yield, not spread. A recent research note is a good example of why yield matters: "It is noteworthy that at an index level, CCCs have gone from a 10% YTW a year ago to 6.5% today, implying substantial performance. Unfortunately, actual total returns have been a meager 3% over the period, with default losses eating away at the bulk of that yield."⁷ Spread-based buyers who ignore yield are exposed to the mismatch between their relative-value investment approach and absolute losses.

The markets are behaving as if the world's recovery from COVID-19 will be a linear path. However, we have already seen signs that this may not be the case. We hope for a fast recovery, but we're aware that there are obstacles that could cause the recovery to slow or flounder. We incorporate this conservative view into our assessment of a company's ability to repay its debt at maturity.

With regard to the Fund's investments in private credit, we expect that the 7.5% drawn/invested amount will continue to expand along with increasing commitments during 2021. We are currently targeting to have at least 15% to be invested in or committed to private credit by year-end 2021.⁸

Markets and Economy

It's always good to take stock at the end of a calendar year, and no better time than now with 2020 delivering more than the usual share of surprises.

At the end of 2019, no one predicted that the unemployment rate would hit its highest level since the Great Depression and most Americans would struggle financially; U.S. national debt would cross \$27 trillion, an increase of almost \$5 trillion; GDP would shrink 3.5%; average wages would *decline* but household incomes would *increase*, thanks to government stimulus checks (Exhibit E); yet the stock market would hit new highs, delivering a double-digit rate of return.

⁶ Source: Bloomberg. Chart data as of the dates shown.

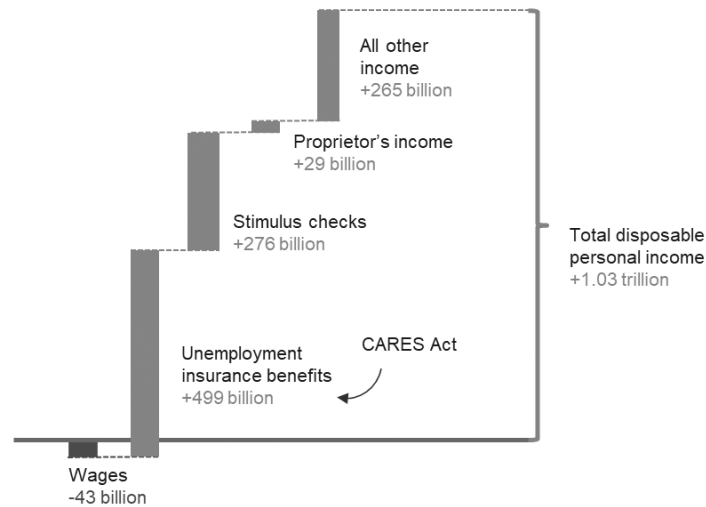
⁷ Hamid, Sherif, Jefferies research, 1/25/21.

⁸ This target is increased from the 10% target communicated on September 16, 2020. There is no guarantee this target will be achieved. <https://fpa.com/docs/default-source/FPA-News-Documents/source-capital-press-release09-16-2020.pdf?sfvrsn=4>.

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Exhibit E: Personal Income Increased in 2020 Despite a Decline in Wages in the U.S.⁹



The economy and, by extension, the securities markets have been supported by the friendliest financial conditions in U.S. history including: a negative real rate of interest, liberal fiscal policy, business subsidies, stimulus checks for most individuals, and a ballooning Fed balance sheet used to buy treasuries, agencies, and now corporate bonds.

People were fearful of what *might* be. As is usually the case, however, more things could happen than will happen. We certainly did not predict that 2020 would unfold as it did, but the three meta-points we believed to be true in the first quarter of 2020, when fear was near its peak, reflect our steady bearing.

Those were:

- 1) The world wasn't coming to an end. The impact on the Fund's equities was largely a mark-to-market exercise in the midst of the most unsettling series of events that many of us have ever experienced.
- 2) We added more than a dozen new holdings and were genuinely happy with what we owned.
- 3) We believed the Fund's equity portfolio of securities at the end of the tumultuous first quarter were attractive.

Investors typically anchor to the average annual market return, while disregarding that the actual annual returns vacillate tremendously around that average.

Ironically, people will one day look back at 2020 and see a year that delivered a market return of approximately 2x the long-term average. There will be less attention paid to the market having declined approximately 34%, only to then rebound approximately 67%.¹⁰ That's comforting in a way as it suggests that this unusual year was not really so abnormal.

Investors focus on average annual stock market returns without often appreciating that the stock market never returns the average. Long-term equity returns are achieved with significant variability around the mean. The MSCI ACWI Net Return Index has returned an average of 6.12% over the past 20 years, but in only three instances were the returns even within 2% of the average. In 65% of the cases, the returns were more than 10 percentage points higher or lower than the average, with a 77% spread between the best and worst years (34.6% in 2009; -42.2% in 2008). Therefore, notwithstanding the tremendous volatility during the year, as it relates to the global stock market returns for the full calendar year 2020, it was truly an exceptionally unexceptional year (Exhibit F).

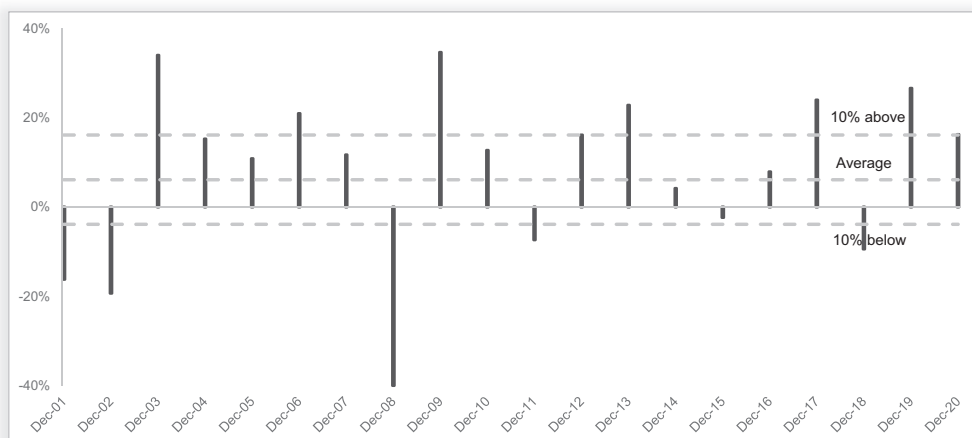
⁹ Source: Bureau of Economic Analysis. Data is from March 2020—November 2020 and compared to the same time period in 2019.

¹⁰ Source: Bloomberg. As of December 31, 2020. The 'market' statistics noted refer to the S&P 500 Index.

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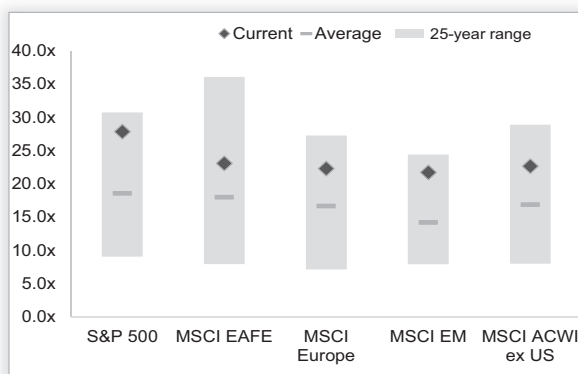
Exhibit F: MSCI ACWI Returns 2001 to 2020¹¹



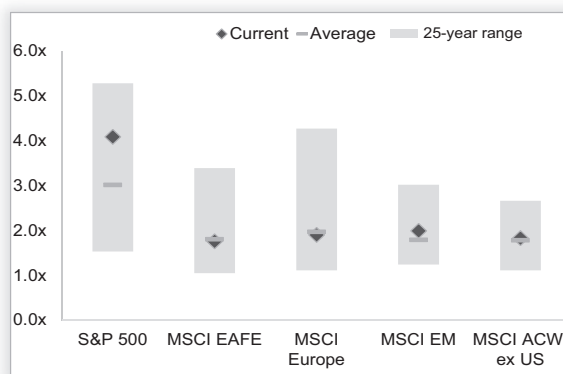
The pendulum swung hard to the downside in March and now has swung even harder to the upside since those market lows. We believe that as emotion is wrung from the stock market, it tends to look forward to what the economy looks like on the other side of a virulent downturn. That happened sooner than we expected. Far be it from us to say this rebound was overdone, but there's little question that the markets are pricing in a COVID-free world (Exhibit G).

Exhibit G: Global Valuations¹²

Price to Earnings Ratio Trailing 12-Month



Price to Book Ratio



In comparison to trailing indicators, large-cap U.S. stocks (S&P 500) trade at 22.3x forward earnings at year-end, 45% higher than the 20-year average.¹³ Larger market cap companies based outside the U.S. (ACWI ex-U.S.) trade less expensively at 16.7x, although still 25% higher than its 20-year average. These higher valuations can, in part, be supported by lower interest rates and the higher growth rates of many businesses. However, ~12% of the S&P 500 now trades at more than 10x sales—its largest percentage and more than during the dotcom bubble (Exhibit H). Only time will tell if it is truly different this time, but it has always been dangerous to utter those words during previous periods of market exuberance.

¹¹ Source: Bloomberg. As of December 31, 2020. MSCI ACWI Net Return Index.

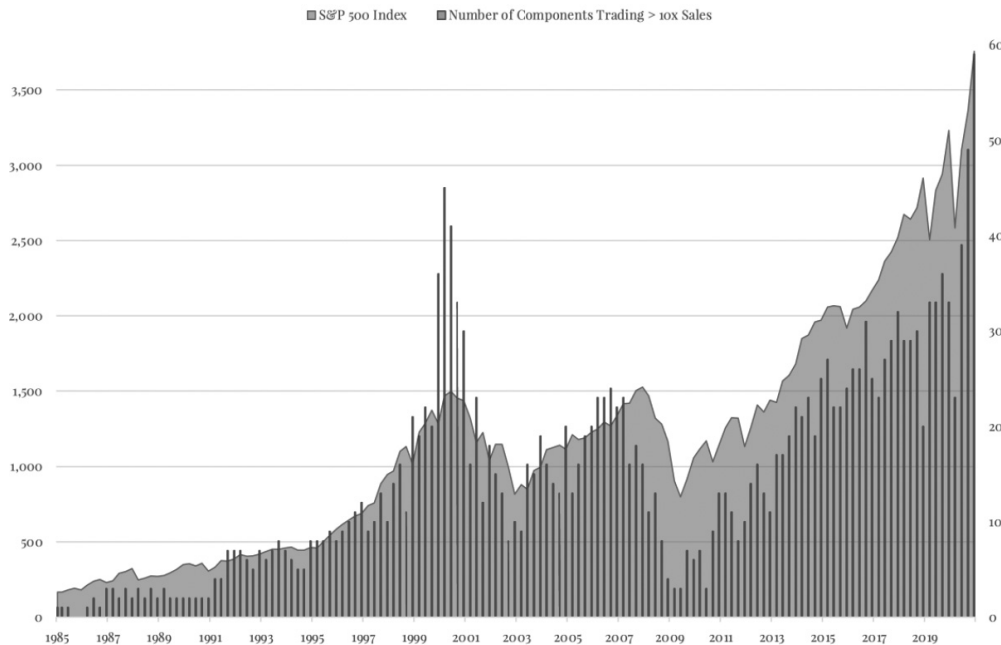
¹² Source: Factset. As of December 31, 2020. Data is represented by the respective indices in the charts.

¹³ Source: J.P. Morgan Asset Management, Guide to the Markets. Slide 55. As of December 31, 2020.

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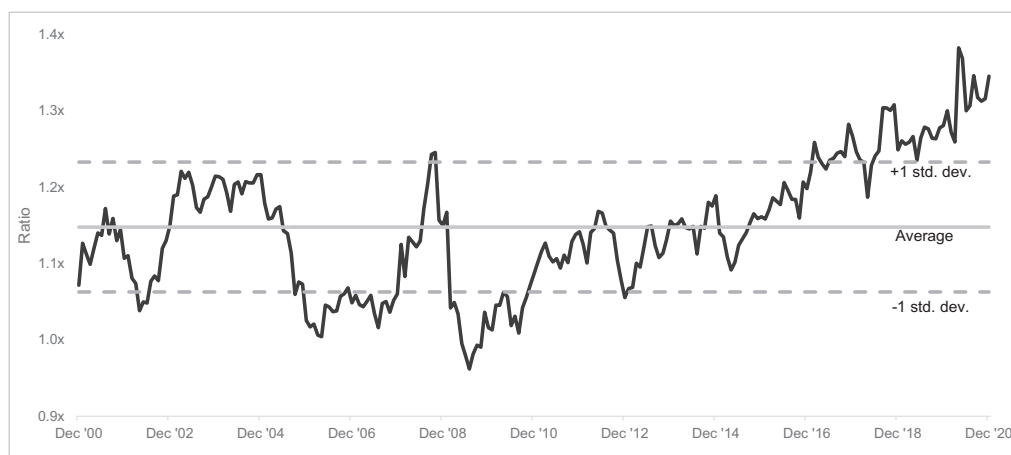
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Exhibit H: Valuation Extreme¹⁴



International stocks continue to trade more inexpensively (relatively) when compared to U.S. stocks even with many operating globally (Exhibit I). A lower valuation on its own, though, does not warrant a place for a stock in our portfolio. Those slots are reserved for growing businesses. We have been fortunate to find many such companies in the last couple of years, which explains our 38.5% exposure (as a percent of equity investments) to foreign-domiciled companies; including global companies like Groupe Bruxelles Lambert, Glencore, Lafargeholcim, and Richemont.¹⁵

Exhibit I: Relative Forward P/E Ratio of S&P 500 vs. MSCI ACWI ex-U.S.¹⁶



Generally high valuations create a friendly market for raising capital. This past year was no different. Initial public offering volume hit a record \$175 billion; while SPACS, the special purpose acquisition companies that have a “blank check” to invest, have raised more than \$60 billion.¹⁷

¹⁴ Source: *What were you thinking? Part Tres*. Jesse Felder, The Felder Report. Data as of December 31, 2020. The ‘number of components’ refers to individual stocks.

¹⁵ Portfolio composition will change due to ongoing management of the Fund.

¹⁶ Source: Factset. As of December 31, 2020.

¹⁷ Source: *A Speculative Frenzy is Sweeping Wall Street and World Markets*. Bloomberg News. As of December 19, 2020.

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According to Bloomberg, “a record \$120 trillion of stock changed hands on U.S. stock exchanges last year, up 50% year-over year. The average Russell 3000 stock saw average daily share volume surge 46% to 1.9 million shares.”¹⁸ The stocks that performed best were those with better projected prospects than current earnings and companies that were either less impacted by or benefited from the pandemic. Needless to say, we did not own many of these companies. The momentum-driven buying of many individuals, including those utilizing commission-less platforms like Robinhood, have helped drive stock prices higher. Many of these “investors” operate with the core tenet that past performance is indicative of future performance, and have piled into stocks with the aid of record amounts of borrowed money and the use of derivatives (Exhibits J & K).

Exhibit J: Margin Debt¹⁹

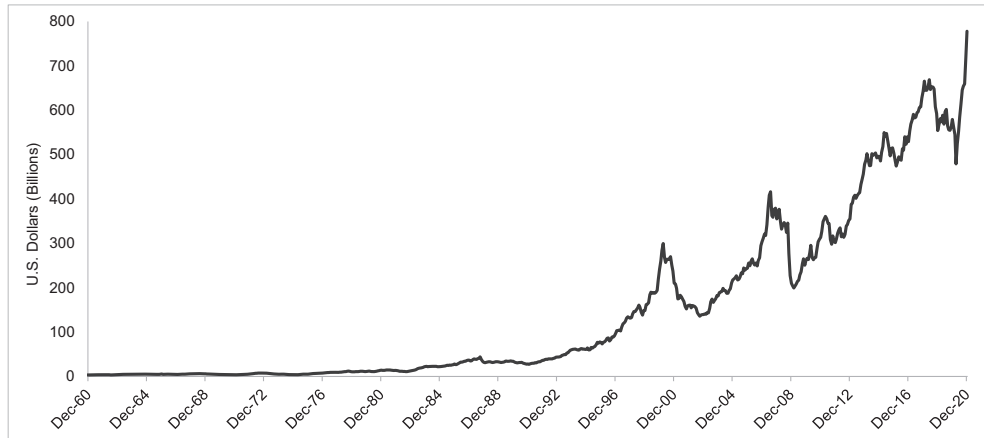
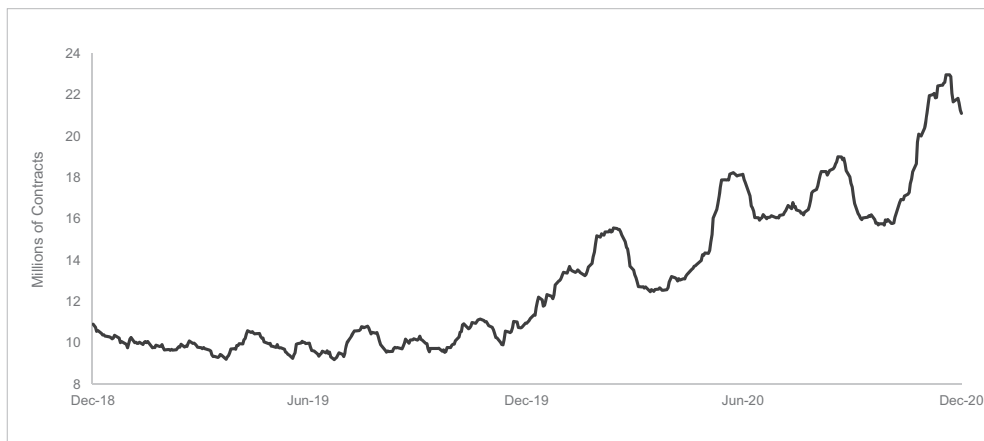


Exhibit K: Call Options Traded 20-Day Moving Average²⁰



It’s interesting to see how people find solace in different industries in which they have little grasp of the economics, let alone what might be the right price to pay. Momentum, more than understanding, drove the Nifty 50 in the 70s; Oil stocks in the 80s; Tech stocks in the 90s; Diversified industrial stocks and certain financials—like General Electric and Bank of America in the 00s; and now back to technology and healthcare stocks today.²¹

¹⁸ Source: *Day Traders Put Stamp on Market with Unprecedented Stock Frenzy*. Bloomberg Quint. As of January 1, 2021.

¹⁹ Source: Yardeni Research, Inc. As of December 31, 2020. Debit balances in margin accounts at broker/dealers. Beginning in 1997, data reflects debit balances in customers’ securities margin accounts.

²⁰ Source: Bloomberg. U.S. Total Option Call Volumes. As of December 31, 2020.

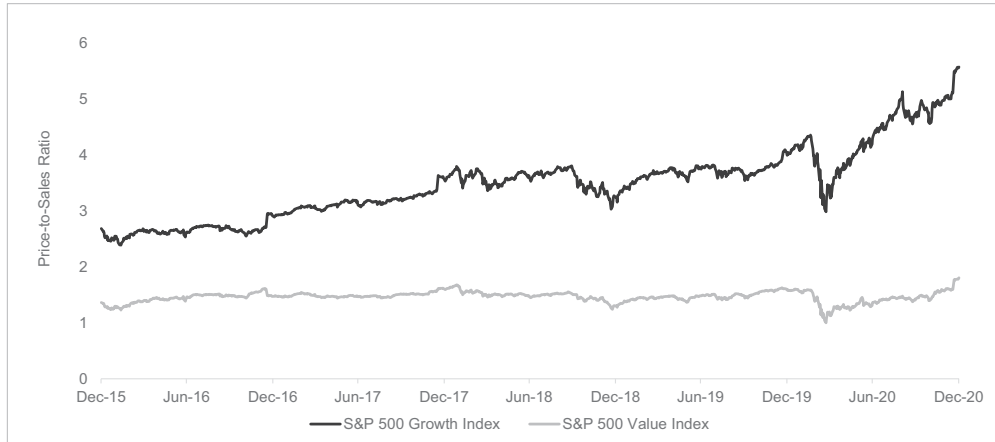
²¹ Nifty 50 was an informal designation for fifty popular large-cap stocks on the New York Stock Exchange in the 1960s and 1970s that were widely regarded as solid buy and hold growth stocks, or “Blue-chip” stocks.

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This has led to a clear bifurcation in the market with a widening gulf between the haves and have-nots—as pronounced as we’ve ever seen it (Exhibit L). The valuations of many “haves” are too rich for our blood and are less likely to deliver reasonable returns over time, despite many high quality businesses in the mix. The lower valuations of the “have-nots” can often be appropriately justified by the secular challenges these businesses face. As price conscious investors, we focus on the cohort in between. Much of the oxygen in the room has gotten sucked up by those stocks that have been “working”, leaving the share prices of many good businesses gasping for air.

Exhibit L: Price/Sales: S&P 500 Growth Index vs S&P 500 Value Index²²



Grounded in the philosophy of not paying more for an asset than we believe it is worth, our true north remains bottom-up security selection. We evaluate the risk/reward of each of our investments over a three to five-year period, and innately believe that anything less is speculation. As risky as investing in stocks appeared at the March lows, particularly with regard to the financial, travel, and aerospace sectors, we’d argue that higher stock prices today, all else equal, translates to greater risk.

We therefore expend the bulk of our energy and capital on those businesses that we believe offer secular growth, good returns on capital, have operators who are either owners or function with an owner mentality and, finally, trade at prices that should allow for an acceptable rate of return over time.

Investors today are paying more for certainty—or for the illusion of certainty. However, there are numerous companies (many with unproven business models) whose valuations can only be justified by high earnings growth well into the future. Further, achieving those growth rates does not assure good stock price performance. Take Microsoft for example. It posted 19.5% earnings growth through the first decade of the millennium, but its stock price declined 48% in that time.²³ Price may not matter over the short-term, but it certainly does over the long-term. The Fund will hopefully continue to prove that point.

Closing

What was a bad year in March turned into an average year by December, emphasizing how noisy short-term performance can be for long duration assets. From a valuation perspective, we believe we are well-positioned for future performance, although more relatively than absolutely.

Although we do not like losing money, we can’t forget about making money. This balance between capital preservation and appreciation must always consider the macro environment: the sovereign desire to inflate, the continued low interest rates, and the negative real return on cash.

We will continue to pay closer attention to how things might unfold over time, rather than to emphasize any moment in time.

Respectfully submitted,

Source Capital Portfolio Management Team

February 2021

²² Source: Bloomberg. As of December 31, 2020.

²³ Source: Bloomberg, for the period 12/31/1999 to 12/31/2009. Microsoft’s stock price on the respective dates was \$58.38 and \$30.48.

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Important Disclosures

This Commentary 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. This Commentary does not constitute an investment management agreement or offering circular.

On December 1, 2015, a new portfolio management team assumed management of the Fund and the Fund transitioned to a balanced strategy. Performance prior to December 1, 2015 reflects the performance of the prior portfolio manager and investment strategy and is not indicative of performance for any subsequent periods.

Current performance information is updated monthly and is available by calling 1-800-982-4372 or by visiting www.fpa.com. Performance data quoted represents past performance, which is no guarantee of future results. Current performance may vary from the performance quoted. The returns shown for Source Capital are calculated at net asset value per share, including reinvestment of all distributions. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions, which would lower these figures. Since Source Capital is a closed-end investment company and its shares are bought and sold on the New York Stock Exchange, your performance may also vary based upon the market price of the common stock.

The Fund is managed according to its investment strategy which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of the comparative indices. Overall Fund performance, characteristics and volatility may differ from the comparative indices shown.

There is no guarantee the Fund's investment objectives will be achieved. You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. You can obtain additional information by visiting the website at www.fpa.com, by email at crm@fpa.com, toll free by calling 1-800-279-1241 (option 1), or by contacting the Fund in writing.

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 financial instruments or sectors are for informational purposes only and should not be construed as recommendations by the Fund or the portfolio managers. It should not be assumed that future investments will be profitable or will equal the performance of the financial instrument or sector examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

Investing in closed-end funds involves risk, including loss of principal. Closed-end fund shares may frequently trade at a discount or premium to their net asset value.

Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. It is important to remember that there are risks inherent in any investment and there is no assurance that any investment or asset class will provide positive performance over time.

The Fund may purchase foreign securities, including American Depositary 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. Non-U.S. investing presents additional risks, such as the potential for adverse political, currency, economic, social or regulatory developments in a country, including lack of liquidity, excessive taxation, and differing legal and accounting standards. Non-U.S. securities, including American Depositary Receipts (ADRs) and other depository receipts, are also subject to interest rate and currency exchange rate risks.

The return of principal in a fund that invests in fixed income securities is not guaranteed. The Fund's investments in fixed income securities have the same issuer, interest rate, inflation and credit risks that are associated with underlying bonds owned by the Fund. Such investments may be secured, partially secured or unsecured and may be unrated, and whether or not rated, may have speculative characteristics. The market price of the Fund's fixed income investments will change in response to changes in interest rates and other factors.

Generally, when interest rates go up, the value of fixed income securities, such as bonds, typically go down (and vice versa) 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. Lower rated bonds, convertible securities and other types of debt obligations involve greater risks than higher rated bonds.

Mortgage securities and collateralized mortgage obligations (CMOs) are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; such derivatives may increase volatility. Convertible securities are generally not investment

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grade and are subject to greater credit risk than higher-rated investments. High yield securities can be volatile and subject to much higher instances of default. The Fund may experience increased costs, losses and delays in liquidating underlying securities should the seller of a repurchase agreement declare bankruptcy or default.

The ratings agencies that provide ratings are Standard and Poor's, Moody's, and Fitch. Credit ratings range from AAA (highest) to D (lowest). Bonds rated BBB or above are considered investment grade. Credit ratings of BB and below are lower-rated securities (junk bonds). High-yielding, non-investment grade bonds (junk bonds) involve higher risks than investment grade bonds. Bonds with credit ratings of CCC or below have high default risk.

Private placement securities are securities that are not registered under the federal securities laws, and are generally eligible for sale only to certain eligible investors. Private placements may be illiquid, and thus more difficult to sell, because there may be relatively few potential purchasers for such investments, and the sale of such investments may also be restricted under securities laws.

While the use of leverage may help increase the distribution and return potential of the Fund, it also increases the volatility of the Fund's net asset value (NAV), and potentially increases volatility of its distributions and market price. There are costs associated with the use of leverage, including ongoing dividend and/or interest expenses. There also may be expenses for issuing or administering leverage. Leverage changes the Fund's capital structure through the issuance of preferred shares and/or debt, both of which are senior to the common shares in priority of claims. If short-term interest rates rise, the cost of leverage will increase and likely will reduce returns earned by the Fund's common stockholders.

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.

Index 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 may 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, transaction costs, or fees and expenses which would be incurred by an investor purchasing the underlying securities and which would reduce the performance in an actual account. You cannot invest directly in an index. The Fund does not include outperformance of any index in its investment objectives.

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.

S&P 500 Value Index is a subset of the S&P 500 index. Companies within the index are ranked based on growth and value factors including three-year change in earnings price/share, three-year sales/share growth rate, momentum, book value/price ratio, earnings/price ratio, sales/price ratio. The companies at the bottom of this list, that have a higher Value Rank, comprising 33% of the total index market capitalization are designated as the Value basket.

S&P 500 Growth Index is a subset of the S&P 500 index. Companies within the index are ranked based on growth and value factors including three-year change in earnings price/share, three-year sales/share growth rate, momentum, book value/price ratio, earnings/price ratio, sales/price ratio. The companies at the top of this list, that have a higher Growth Rank, comprising 33% of the total index market capitalization are designated as the Growth basket.

MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets.

MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries.

MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 26 Emerging Markets (EM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

MSCI ACWI Growth Index captures large and mid-cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries.

SOURCE CAPITAL, INC.

MSCI Emerging Markets (“EM”) Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,404 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe Index captures large and mid-cap representation across 15 Developed Markets (DM) countries in Europe. With 438 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries. With 1,585 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 918 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market.

Consumer Price Index (CPI) is an unmanaged index representing the rate of the inflation of U.S. consumer prices as determined by the U.S. Department of Labor Statistics. The CPI is presented to illustrate the Fund’s purchasing power against changes in the prices of goods as opposed to a benchmark, which is used to compare the Fund’s performance. There can be no guarantee that the CPI will reflect the exact level of inflation at any given time.

Bloomberg Barclays U.S. Aggregate Bond Index provides a measure of the performance of the US investment grade bonds market, which includes investment grade US Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1-year remaining in maturity. In addition, the securities must be denominated in US dollars and must be fixed rate, nonconvertible, and taxable.

Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Global Aggregate Negative Yielding Debt Index represents the negative yielding segment of the global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

60% S&P 500 / 40% Bloomberg Barclays U.S. Aggregate Bond Index is a hypothetical combination of unmanaged indices and comprises 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index.

60% MSCI ACWI / 40% Bloomberg Barclays U.S. Aggregate Bond Index is a hypothetical combination of unmanaged indices and comprises 60% MSCI ACWI Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index.

Other Definitions

Basis Point (bps) is equal to one hundredth of one percent, or 0.01%. 100 basis points = 1%.

Credit Spread is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality.

Call Options are financial contracts that give the option buyer the right, but not the obligation, to buy a stock, bond, commodity or other asset or instrument at a specified price within a specific time period.

Covenants exist in financial contracts, such as bond issues, that set out certain activities that will or will not be carried out. They are legally binding clauses, and if breached will trigger compensatory or other legal action.

Covenant-lite loans are a type of financing that is issued with fewer restrictions on the borrower and fewer protections for the lender.

Earnings Per Share (EPS) is calculated as a company’s profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company’s profitability.

Earnings Per Share Growth is defined as the percentage change in normalized earnings per share over the previous 12-month period to the latest year end.

Long Equity Performance represents the performance of stocks that the Fund owned over the given time periods and excludes the long equity portion of a pair trade, short-sales, limited partnerships, derivatives/futures, corporate bonds, mortgage backed securities, and cash and cash equivalents.

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Margin debt is debt a brokerage customer takes on by trading on margin. When purchasing securities through a broker, investors have the option of using a cash account and covering the entire cost of the investment themselves, or using a margin account—meaning they borrow part of the initial capital from their broker.

Market Capitalization refers to the total dollar market value of a company's outstanding shares of stock. Commonly referred to as "market cap," it is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.

Market Cycles, also known as stock market cycles, is a wide term referring to trends or patterns that emerge during different markets or business environments.

Net Risk Exposure is a measure of the extent to which a fund's trading book is exposed to market fluctuations. In regards to the Fund, it is the percent of the portfolio exposed to Risk Assets.

Nifty Fifty was an informal designation for fifty popular large-cap stocks on the New York Stock Exchange in the 1960s and 1970s that were widely regarded as solid buy and hold growth stocks, or "Blue-chip" stocks.

Price to Book is used to compare a firm's market capitalization to its book value. It's calculated by dividing the company's stock price per share by its book value per share (BVPS). An asset's book value is equal to its carrying value on the balance sheet, and companies calculate it netting the asset against its accumulated depreciation.

Price to Earnings is the ratio for valuing a company that measures its current share price relative to its EPS. The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

Trailing Price to Earnings is a relative valuation multiple that is based on the last 12 months of actual earnings.

Forward Price to Earnings is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation.

Price to Sales is a valuation ratio that compares a company's stock price to its revenues. It is an indicator of the value that financial markets have placed on each dollar of a company's sales or revenues.

Risk Assets is any asset that carries a degree of risk. Risk asset generally refers to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate and currencies, but does not include cash and cash equivalents.

Special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring an existing company. Also known as "blank check companies."

Standard Deviation is a measure of the dispersion of a set of data from its mean.

Volatility is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security. Volatility is often measured as either the standard deviation or variance between returns from that same security or market index.

You can obtain additional information by visiting the website at www.fpa.com, by email at crm@fpa.com, toll free by calling 1-800-279-1241 (option 1), or by contacting the Fund in writing.

SOURCE CAPITAL, INC. FEDERAL INCOME TAX INFORMATION

Calendar 2020

Cash Dividends and Distributions (unaudited):

<u>Record Date</u>	<u>Payable Date</u>	<u>Amount Paid Per Share</u>	<u>(1) Ordinary Income Dividends</u>	<u>(2) Long-Term Capital Gain Distributions</u>
02/28/2020	03/15/2020	\$0.25	\$0.1524	\$0.0976
05/29/2020	06/15/2020	0.25	0.1524	0.0976
08/28/2020	09/15/2020	0.25	0.1525	0.0975
11/27/2020	12/15/2020	0.89	0.5427	0.3473
TOTAL		<u>\$1.64</u>	<u>\$1.0000</u>	<u>\$0.6400</u>

The amounts in column (1) are to be included as dividend income on your tax return and 66.72% of these amounts are Qualified Dividend Income.

In accordance with the provisions of the Internal Revenue Code, the amounts in column (2) are long-term capital gain distributions.

A Form 1099 has been mailed to all shareholders of record on dividend record dates setting forth the specific amounts to be included in their 2020 tax returns. For corporate shareholders, 26.06% of the amount in column (1) qualifies for the 70% corporate dividends received deduction. Source Capital did not elect to retain any undistributed long-term capital gains for the year ended December 31, 2020. Therefore, Common shareholders will not receive a Form 2439 for 2020.

Notice to Dividend Reinvestment Plan Participants:

When additional shares are issued by Source Capital under the Automatic Reinvestment Plan at a discount from the market price, a participant in the Plan is treated for federal income tax purposes as having received a taxable distribution equal to the market value of the shares purchased. In effect, the discount from market price at which shares are purchased is added to the amount of the cash distribution to determine the total value of the taxable distribution. Such value also becomes the participant's tax basis for the shares purchased under the Plan.

For the year ended December 31, 2020 none of the distributions paid were reinvested at a discount from the market price.

State Tax Information:

0.342% of the amounts reported in column (1) were derived from U.S. Treasury Securities.

SOURCE CAPITAL, INC. PORTFOLIO SUMMARY

December 31, 2020

Common Stocks	53.9%
Internet Media	10.2%
Semiconductor Devices	5.4%
Cable & Satellite	5.1%
Cement & Aggregates	3.1%
Diversified Banks	2.8%
Industrial Distribution & Rental	2.6%
P&C Insurance	2.4%
Electrical Components	2.3%
Investment Companies	2.1%
Insurance Brokers	1.7%
Base Metals	1.7%
Application Software	1.7%
Banks	1.6%
Internet Based Services	1.5%
Railroad Rolling Stock	1.1%
Midstream — Oil & Gas	1.0%
Hotels, Restaurants & Leisure	1.0%
E-Commerce Discretionary	1.0%
Apparel, Footwear & Accessory Design	0.8%
Commercial & Residential Building Equipment & Systems	0.8%
Telecom Carriers	0.7%
Infrastructure Software	0.7%
Other Common Stocks	0.7%
Medical Equipment	0.6%
Real Estate Owners & Developers	0.4%
Integrated Utilities	0.4%
Oil & Gas Services & Equipment	0.3%
Energy	0.2%
Retailing	0.0%
Limited Partnerships	1.5%
Preferred Stocks	0.1%
Closed End Fund	0.5%
Rights / Warrants	0.0%
Bonds & Debentures	27.7%
Asset-Backed Securities	9.4%
Corporate Bonds & Notes	7.7%
Corporate Bank Debt	6.5%
Residential Mortgage-Backed Securities	2.2%
Commercial Mortgage-Backed Securities	1.9%
Short-term Investments	17.9%
Other Assets And Liabilities, Net	<u>(1.6)%</u>
Net Assets	<u>100.0%</u>

SOURCE CAPITAL, INC. PORTFOLIO OF INVESTMENTS

December 31, 2020

COMMON STOCKS	Shares	Fair Value
INTERNET MEDIA — 10.2%		
Alphabet, Inc. (Class A)(a)	4,998	\$ 8,759,695
Alphabet, Inc. (Class C)(a)	4,577	8,018,355
Baidu, Inc. (ADR) (China)(a)	21,725	4,697,814
Facebook, Inc. (Class A)(a)	28,170	7,694,917
Naspers, Ltd. (N Shares) (South Africa)	29,948	6,153,351
Prosus NV (Netherlands)(a)	33,929	3,662,466
		<u>\$ 38,986,598</u>
SEMICONDUCTOR DEVICES — 5.4%		
Analog Devices, Inc.	60,776	\$ 8,978,438
Broadcom, Inc.	21,442	9,388,380
NXP Semiconductors NV (Netherlands)	15,452	2,457,023
		<u>\$ 20,823,841</u>
CABLE & SATELLITE — 5.1%		
Charter Communications, Inc. (Class A)(a)	12,719	\$ 8,414,255
Comcast Corp. (Class A)	210,348	11,022,235
		<u>\$ 19,436,490</u>
CEMENT & AGGREGATES — 3.1%		
HeidelbergCement AG (Germany)	39,532	\$ 2,956,575
LafargeHolcim Ltd. (Switzerland)(a)	161,899	8,891,370
		<u>\$ 11,847,945</u>
DIVERSIFIED BANKS — 2.8%		
Avanti Acquisition Corp. (Cayman Islands)(a)	179,000	\$ 1,940,360
Bank of America Corp.	41,624	1,261,623
Citigroup, Inc.	121,294	7,478,988
		<u>\$ 10,680,971</u>
INDUSTRIAL DISTRIBUTION & RENTAL — 2.6%		
Howmet Aerospace, Inc.	204,262	\$ 5,829,637
LG Corp. (South Korea)	50,644	4,079,306
		<u>\$ 9,908,943</u>
P&C INSURANCE — 2.4%		
American International Group, Inc.	244,521	\$ 9,257,565
ELECTRICAL COMPONENTS — 2.3%		
TE Connectivity, Ltd. (Switzerland)	71,286	\$ 8,630,596
INVESTMENT COMPANIES — 2.1%		
Groupe Bruxelles Lambert SA (Belgium)	78,012	\$ 7,864,434
INSURANCE BROKERS — 1.7%		
Aon plc (Class A) (Britain)	31,190	\$ 6,589,511
BASE METALS — 1.7%		
Glencore plc (Switzerland)(a)	2,060,578	\$ 6,565,572
APPLICATION SOFTWARE — 1.7%		
Epic Games, Inc.(b)(c)	4,347	\$ 2,499,525
Nexon Co. Ltd. (Japan)	125,494	3,864,906
		<u>\$ 6,364,431</u>

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2020

COMMON STOCKS <i>(Continued)</i>	Shares	Fair Value
BANKS — 1.6%		
Wells Fargo & Co.	201,376	\$ 6,077,528
INTERNET BASED SERVICES — 1.5%		
Booking Holdings, Inc.(a)	2,559	\$ 5,699,584
RAILROAD ROLLING STOCK — 1.1%		
Westinghouse Air Brake Technologies Corp.	58,823	\$ 4,305,844
HOTELS, RESTAURANTS & LEISURE — 1.0%		
Marriott International, Inc. (Class A)	29,466	\$ 3,887,155
MIDSTREAM — OIL & GAS — 1.0%		
Kinder Morgan, Inc.	279,952	\$ 3,826,944
E-COMMERCE DISCRETIONARY — 1.0%		
Alibaba Group Holding Ltd. (ADR) (China)(a)	15,739	\$ 3,662,937
APPAREL, FOOTWEAR & ACCESSORY DESIGN — 0.8%		
Cie Financiere Richemont SA (Switzerland)	34,843	\$ 3,151,731
COMMERCIAL & RESIDENTIAL BUILDING EQUIPMENT & SYSTEMS — 0.8%		
Samsung C&T Corp. (South Korea)	24,166	\$ 3,069,970
TELECOM CARRIERS — 0.7%		
SoftBank Group Corp. (Japan)	35,700	\$ 2,786,021
INFRASTRUCTURE SOFTWARE — 0.7%		
FirstEnergy Corp.	87,681	\$ 2,683,915
MEDICAL EQUIPMENT — 0.6%		
Olympus Corp. (Japan)	112,494	\$ 2,458,406
REAL ESTATE OWNERS & DEVELOPERS — 0.4%		
Swire Pacific Ltd. (Class A) (Hong Kong)	288,632	\$ 1,600,936
INTEGRATED UTILITIES — 0.4%		
PG&E Corp.(a)	114,773	\$ 1,430,071
OIL & GAS SERVICES & EQUIPMENT — 0.3%		
McDermott International Ltd.(a)	1,213,985	\$ 983,328
ENERGY — 0.2%		
PHI Group, Inc.(a)(b)	26,711	\$ 240,399
PHI Group, Inc., Restricted(a)(b)	57,741	519,669
		\$ 760,068
RETAILING — 0.0%		
Copper Earn Out Trust(b)(c)	2,141	\$ 12,846
OTHER COMMON STOCKS — 0.7%(d)		
		\$ 2,553,310
TOTAL COMMON STOCKS — 53.9% (Cost \$150,309,611)		
		\$205,907,491
LIMITED PARTNERSHIPS — 1.5%		
MSD Real Estate Credit Opportunities Fund(b)(c)	30,000	\$ 583,997
Nebari Natural Resources Credit Fund I LP(b)(c)	55,000	1,492,164
Silverpeak Credit Opportunities Onshore Fund LP(b)(c)	34,745	3,282,000
Silverpeak Special Situations(b)(c)	20,000	251,086
TOTAL LIMITED PARTNERSHIPS (Cost \$5,529,528)		
		\$ 5,609,247

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2020

COMMON STOCKS <i>(Continued)</i>	Shares or Principal Amount	Fair Value
PREFERRED STOCK — 0.1%		
ENGINEERING SERVICES — 0.1%		
McDermott International, Inc.(b)(c) (Cost \$0)	7,111	\$ 248,880
CLOSED END FUND — 0.5%		
Altaba Escrow(b)(c) (Cost \$108,570)	142,220	\$ 2,018,813
RIGHTS / WARRANTS		
MIDSTREAM — OIL & GAS — 0.0%		
Windstream Rights Offering(b)(c)	10,312	\$ 113,432
ENERGY — 0.0%		
Cie Financiere Richemont SA 11/22/2023	69,686	\$ 18,104
TOTAL RIGHTS / WARRANTS — 0.0% (Cost \$316,231)		<u>\$ 131,536</u>
BONDS & DEBENTURES		
COMMERCIAL MORTGAGE-BACKED SECURITIES — 1.9%		
AGENCY — 0.3%		
Government National Mortgage Association 2014-148 A — 2.650% 11/16/2043	\$ 125,786	\$ 127,256
Government National Mortgage Association 2019-39 A — 3.100% 5/16/2059	1,007,722	1,035,360
		<u>\$ 1,162,616</u>
AGENCY STRIPPED — 0.7%		
Government National Mortgage Association 2014-153 IO — 0.470% 4/16/2056(e)	\$ 4,852,898	\$ 139,539
Government National Mortgage Association 2012-79 IO — 0.502% 3/16/2053(e)	4,438,812	60,955
Government National Mortgage Association 2012-58 IO — 0.517% 2/16/2053(e)	6,438,655	55,081
Government National Mortgage Association 2012-109 IO — 0.537% 10/16/2053(e)	8,930,387	105,932
Government National Mortgage Association 2014-171 IO — 0.592% 11/16/2055(e)	11,825,575	252,846
Government National Mortgage Association 2015-86 IO — 0.602% 5/16/2052(e)	1,875,470	55,849
Government National Mortgage Association 2015-19 IO — 0.604% 1/16/2057(e)	4,866,032	168,387
Government National Mortgage Association 2012-114 IO — 0.691% 1/16/2053(e)	10,283,815	217,344
Government National Mortgage Association 2014-187 IO — 0.695% 5/16/2056(e)	3,582,678	126,288
Government National Mortgage Association 2015-114 IO — 0.700% 3/15/2057(e)	1,219,722	42,601
Government National Mortgage Association 2015-108 IO — 0.716% 10/16/2056(e)	4,342,693	166,135
Government National Mortgage Association 2013-146 IO — 0.722% 11/16/2048(e)	11,927,317	272,316
Government National Mortgage Association 2015-169 IO — 0.775% 7/16/2057(e)	1,248,094	52,263
Government National Mortgage Association 2013-74 IO — 0.777% 12/16/2053(e)	13,060,920	372,469
Government National Mortgage Association 2016-125 IO — 0.942% 12/16/2057(e)	2,502,693	135,715
Government National Mortgage Association 2016-106 IO — 0.981% 9/16/2058(e)	4,974,615	294,285
Government National Mortgage Association 2016-65 IO — 0.990% 1/16/2058(e)	3,161,868	170,327
		<u>\$ 2,688,332</u>
NON-AGENCY — 0.9%		
A10 Bridge Asset Financing LLC 2020-C A — 2.021% 8/15/2040(f)	\$ 254,216	\$ 254,199
Bear Stearns Commercial Mortgage Securities Trust 2005-PWR7 B — 5.214% 2/11/2041(e)	51,506	51,492
Citigroup Commercial Mortgage Trust 2013-GC11 A3 — 2.815% 4/10/2046	702,136	726,549
COMM Mortgage Trust 2014-FL5 B, 1M LIBOR + 2.150% — 1.527% 10/15/2031(e)(f)	8,399	7,980
COMM Mortgage Trust 2014-FL5 C, 1M LIBOR + 2.150% — 1.527% 10/15/2031(e)(f)	226,000	208,465
GS Mortgage Securities Corp. Trust 2012-ALOH A — 3.551% 4/10/2034(f)	287,000	288,216
JP Morgan Chase Commercial Mortgage Securities Trust C 2012-HSBC A — 3.093% 7/5/2032(f) ..	708,071	723,620

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2020

BONDS & DEBENTURES <i>(Continued)</i>	Principal Amount	Fair Value
VNDO E Mortgage Trust 2012-6AVE A — 2.996% 11/15/2030(f)	\$ 86,000	\$ 88,525
VNDO E Mortgage Trust 2012-6AVE B — 3.298% 11/15/2030(f)	1,164,000	1,202,749
		\$ 3,551,795
TOTAL COMMERCIAL MORTGAGE-BACKED SECURITIES (Cost \$8,222,769)		\$ 7,402,743
RESIDENTIAL MORTGAGE-BACKED SECURITIES — 2.2%		
AGENCY COLLATERALIZED MORTGAGE OBLIGATION — 0.2%		
Federal National Mortgage Association 2017-16 JA — 3.000% 2/25/2043	\$ 172,346	\$ 173,324
Federal National Mortgage Association 2018-16 HA — 3.000% 7/25/2043	251,362	254,463
Federal National Mortgage Association 2017-45 KD — 3.500% 2/25/2044	129,546	130,910
Federal National Mortgage Association 2017-52 KC — 3.500% 4/25/2044	63,137	63,399
Federal National Mortgage Association 2017-59 DC — 3.500% 5/25/2044	182,718	184,192
		\$ 806,288
NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATION — 2.0%		
Bravo Residential Funding Trust 2019-1 A1C — 3.500% 3/25/2058(f)	\$ 360,591	\$ 372,060
CIM Trust 2017-7 A, VRN — 3.000% 4/25/2057(e)(f)	374,514	382,418
CIM Trust 2018-R3 A1, VRN — 5.000% 12/25/2057(e)(f)	672,664	714,036
Citigroup Mortgage Loan Trust, Inc. 2014-A A — 4.000% 1/25/2035(e)(f)	117,790	123,247
Finance of America HECM Buyout 2020-HB2 A, VRN — 1.710% 7/25/2030(e)(f)	514,720	518,189
Finance of America HECM Buyout 2020-HB1 M1, VRN — 2.105% 2/25/2030(e)(f)	162,000	162,587
Mill City Mortgage Loan Trust 2018-2 A1, VRN — 3.500% 5/25/2058(e)(f)	615,143	635,684
Nationstar HECM Loan Trust 2019-2A M1, VRN — 2.359% 11/25/2029(c)(e)(f)	125,000	125,912
Nomura Resecuritization Trust 2016-1R 3A1 — 5.000% 9/28/2036(e)(f)	57,553	58,481
PRPM LLC 2020-5 A1 — 3.104% 11/25/2025(f)	1,901,779	1,913,173
Towd Point Mortgage Trust 2016-3 A1 — 2.250% 4/25/2056(e)(f)	167,702	169,345
Towd Point Mortgage Trust 2015-5 A1B, VRN — 2.750% 5/25/2055(e)(f)	47,414	47,602
Towd Point Mortgage Trust 2017-2 A1, VRN — 2.750% 4/25/2057(e)(f)	674,973	690,193
Towd Point Mortgage Trust 2018-1 A1, VRN — 3.000% 1/25/2058(e)(f)	519,179	537,693
Towd Point Mortgage Trust 2018-6 A1A, VRN — 3.750% 3/25/2058(e)(f)	791,548	834,467
VCAT LLC 2020-NPL1 A1 — 3.671% 8/25/2050(f)	194,801	194,799
		\$ 7,479,886
TOTAL RESIDENTIAL MORTGAGE-BACKED SECURITIES (Cost \$8,142,839)		\$ 8,286,174
ASSET-BACKED SECURITIES — 9.4%		
COLLATERALIZED LOAN OBLIGATION — 6.3%		
Adams Mill CLO Ltd. 2014-1A B2R — 3.350% 7/15/2026(f)	\$ 250,000	\$ 250,112
AGL CLO 6 Ltd. 2020-6A E, 3M USD LIBOR + 7.480%, FRN — 7.731% 7/20/2031(e)(f)	250,000	250,706
AGL CLO 7 Ltd. 2020-7A A1, 3M USD LIBOR + 1.800%, FRN — 2.050% 7/15/2031(e)(f)	637,000	639,205
AGL CLO 7 Ltd. 2020-7A E, 3M USD LIBOR + 7.480%, FRN — 7.730% 7/15/2031(e)(f)	685,000	686,910
B&M CLO Ltd. 2014-1A A2R, FRN, 3M USD LIBOR + 1.600% — 1.830% 4/16/2026(e)(f)	231,547	231,382
Cerberus Corporate Credit Solutions Fund — 1.767% 10/15/2030(e)(f)	1,197,000	1,176,040
Cerberus Loan Funding XVIII LP 2017-1A A, 3M USD LIBOR + 1.750% — 1.987% 4/15/2027(e)(f)	547,514	547,569
Cerberus Loan Funding XXI LP 2017-4A A, FRN, 3M USD LIBOR + 1.450% — 1.687% 10/15/2027(e)(f)	524,779	524,600
CIFC Funding Ltd. 2020-2A E, 3M USD LIBOR + 7.635%, FRN — 7.918% 8/24/2032(e)(f)	569,000	574,692
Elm Trust 2020-3A A2 — 2.954% 8/20/2029(f)	109,000	110,029
Elm Trust 2020-4A B — 3.866% 10/20/2029(f)	1,177,000	1,180,291
Elm Trust 2020-3A B — 4.481% 8/20/2029(f)	271,000	272,902

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2020

BONDS & DEBENTURES <i>(Continued)</i>	Principal Amount	Fair Value
Fortress Credit Opportunities IX CLO Ltd. 2017-9A A1T, FRN, 3M USD LIBOR + 1.550% — 1.771% 11/15/2029(e)(f)	\$ 1,027,000	\$ 1,025,977
Fortress Credit Opportunities IX CLO Ltd. 2017-9A E, FRN, 3M USD LIBOR + 7.250% — 7.471% 11/15/2029(e)(f)	328,000	296,897
Fortress Credit Opportunities VII CLO Ltd. 2016-7I E, 3M USD LIBOR + 7.490% — 7.707% 12/15/2028(e)	561,000	518,709
Golub Capital BDC CLO 4 LLC 2020-1A A1, 3M USD LIBOR + 2.350%, FRN — 2.554% 11/5/2032(e)(f)	629,000	632,462
Golub Capital Partners ABS Funding Ltd. 2020-1A B — 4.496% 1/22/2029(f)	1,620,000	1,620,760
Haleyon Loan Advisors Funding Ltd. 2015-1A AR, FRN, 3M USD LIBOR + 0.920% — 1.138% 4/20/2027(e)(f)	454,340	452,873
Haleyon Loan Advisors Funding Ltd. 2014-3A AR, 3M USD LIBOR + 1.100% — 1.316% 10/22/2025(e)(f)	53,524	53,467
Hercules Capital Funding Trust 2018-1A A — 4.605% 11/22/2027(f)	533,915	538,701
Hercules Capital Funding Trust 2019-1A A — 4.703% 2/20/2028(f)	910,000	918,268
Ivy Hill Middle Market Credit Fund IX Ltd. 9A CR, FRN — 2.568% 1/18/2030(e)(f)	630,000	595,669
Ivy Hill Middle Market Credit Fund VII Ltd. 7A AR, FRN, 3M USD LIBOR + 1.530% — 1.748% 10/20/2029(e)(f)	250,000	249,570
Ivy Hill Middle Market Credit Fund X Ltd. 10A A1AR, 3M USD LIBOR + 1.125% — 1.468% 7/18/2030(e)(f)	604,000	598,879
Nassau Ltd. 2017-IA A1AS, 3M USD LIBOR + 1.150%, FRN — 1.387% 10/15/2029(e)(f)	775,000	769,641
Octagon Investment Partners 48 Ltd. 2020-3A E, 3M USD LIBOR + 7.660%, FRN — 7.892% 10/20/2031(e)(f)	850,000	854,426
Saranac CLO III Ltd. 2014-3A ALR, FRN, 3M USD LIBOR + 1.60% — 1.836% 6/22/2030(e)(f)	624,369	624,647
Sound Point CLO XVII Ltd. 2017-3A A1A, 3M USD LIBOR + 1.220%, FRN — 1.438% 10/20/2030(e)(f)	413,000	412,725
Sound Point CLO XVII Ltd. 2017-3A A1B, 3M USD LIBOR + 1.220%, FRN — 1.438% 10/20/2030(e)(f)	413,000	412,725
Stratus CLO Ltd. 2020-2A D, 3M USD LIBOR + 3.650%, FRN — 3.918% 10/15/2028(e)(f)	370,000	371,228
Telos CLO Ltd. 2014-5A A1R, FRN, 3M USD LIBOR + 0.950% — 1.168% 4/17/2028(e)(f)	600,937	597,724
Telos CLO Ltd. 2013-3A BR, 3M USD LIBOR + 2.000% — 2.218% 7/17/2026(e)(f)	550,000	548,115
VCO CLO LLC 2018-1A A, FRN, 3M USD LIBOR + 1.50% — 1.718% 7/20/2030(e)(f)	539,589	539,587
Venture Xxv Clo Ltd. 2016-25A ARR, 3M USD LIBOR + 1.020%, FRN — 1.000% 4/20/2029(e)(f)	554,000	554,000
Venture XXV CLO Ltd. 2016-25A AR, 3M USD LIBOR + 1.230%, FRN — 1.448% 4/20/2029(e)(f)	554,000	554,002
Voya CLO Ltd. 2020-2A E, 3M USD LIBOR + 7.850%, FRN — 8.035% 7/19/2031(e)(f)	768,000	771,611
West CLO Ltd. 2014-2A A1BR — 2.724% 1/16/2027(f)	43,543	43,559
Whitebox CLO II Ltd. 2020-2A A1, 3M USD LIBOR + 1.750%, FRN — 1.992% 10/24/2031(e)(f)	787,000	790,990
Woodmont Trust — 2.218% 10/18/2032(e)(f)	758,000	759,987
Zais CLO 14 Ltd. 2020-14A A1A, 3M USD LIBOR + 1.400%, FRN — 1.637% 4/15/2032(e)(f)	1,098,000	1,098,092
Zais CLO 2 Ltd. 2014-2A A1BR — 2.920% 7/25/2026(f)	9,708	9,714
Zais CLO 7 LLC 2017-2A A, 3M USD LIBOR + 1.290%, FRN — 1.527% 4/15/2030(e)(f)	490,602	489,031
		<u>\$ 24,148,474</u>
EQUIPMENT — 0.9%		
Coinstar Funding LLC Series 2017-1A A2 — 5.216% 4/25/2047(f)	\$ 2,956,760	\$ 2,865,571
Prop Series 2017-1A — 5.300% 3/15/2042(e)	538,783	463,354
		<u>\$ 3,328,925</u>

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2020

BONDS & DEBENTURES <i>(Continued)</i>	Principal Amount	Fair Value
OTHER — 2.2%		
ABPCI Direct Lending Fund ABS I Ltd. 2020-1A A — 3.199% 12/20/2030(f)	\$ 350,000	\$ 350,000
ABPCI Direct Lending Fund ABS I Ltd. 2020-1A B — 4.935% 12/20/2030(f)	3,536,000	3,556,699
InSite Issuer LLC 2020-1A C — 4.213% 9/15/2050(f)	100,000	102,636
New Residential Mortgage LLC 2018-FNT1 A — 3.610% 5/25/2023(f)	439,495	439,586
New Residential Mortgage LLC 2018-FNT2 A — 3.790% 7/25/2054(f)	508,325	508,481
SpringCastle America Funding LLC 2020-AA A — 1.970% 9/25/2037(f)	517,604	520,754
TVEST 2020A LLC 2020-A A — 4.500% 7/15/2032(f)	194,247	194,527
VOLT XCI LLC 2020-NPL7 A1 — 3.105% 11/25/2050(f)	2,536,858	2,543,220
		\$ 8,215,903
TOTAL ASSET-BACKED SECURITIES (Cost \$35,627,729)		\$ 35,693,302
 CORPORATE BONDS & NOTES — 7.7%		
COMMUNICATIONS — 0.4%		
Consolidated Communications, Inc. — 6.500% 10/1/2028(f)	\$ 1,272,000	\$ 1,365,199
Uber Technologies, Inc. — 8.000% 11/1/2026(f)	128,000	139,695
		\$ 1,504,894
CONSUMER, CYCLICAL — 2.6%		
Air Canada 2020-1 Class C Pass Through Trust — 10.500% 7/15/2026(f)	\$ 2,643,000	\$ 2,789,149
Aramark Services, Inc. — 6.375% 5/1/2025(f)	359,000	382,784
Carnival Corp. — 11.500% 4/1/2023(f)	2,449,000	2,831,828
CD&R Smokey Buyer, Inc. — 6.750% 7/15/2025(f)	201,000	214,819
Royal Caribbean Cruises Ltd. — 11.500% 6/1/2025(f)	3,168,000	3,695,630
		\$ 9,914,210
CONSUMER, NON-CYCLICAL — 0.4%		
Cimpress plc — 7.000% 6/15/2026(f)	\$ 381,000	\$ 400,526
StoneMor Partners LP/Cornerstone Family Services of West Virginia Subsidiary PIK — 11.500% 6/30/2024	1,082,853	1,074,732
		\$ 1,475,258
ENERGY — 0.9%		
Gulfport Energy Corp. — 6.000% 10/15/2024	\$ 337,000	\$ 224,526
Gulfport Energy Corp. — 6.375% 5/15/2025	162,000	107,325
Gulfport Energy Corp. — 6.375% 1/15/2026	169,000	112,385
Gulfport Energy Corp. — 6.625% 5/1/2023	171,000	115,211
Natural Resource Partners LP/NRP Finance Corp. — 9.125% 6/30/2025(f)	945,000	864,675
Par Petroleum LLC/Par Petroleum Finance Corp. — 12.875% 1/15/2026(f)	2,000,000	2,142,500
		\$ 3,566,622
INDUSTRIAL — 3.4%		
Tidewater, Inc. — 8.000% 8/1/2022	\$13,850,325	\$ 13,088,557
TOTAL CORPORATE BONDS & NOTES (Cost \$27,999,586)		\$ 29,549,541
 CORPORATE BANK DEBT — 6.3%		
ABG Intermediate Holding 2 LLC, 3M USD LIBOR + 5.250% — 6.250% 9/27/2024(b)(e)	\$ 216,000	\$ 216,000
ABG Intermediate Holding 2 LLC, 3M USD LIBOR + 3.500% — 4.500% 9/27/2024(b)(e)	340,872	338,172
Asurion LLC Second Lien, 1M USD LIBOR + 6.500% — 6.646% 8/4/2025(b)(e)	1,161,000	1,168,744
BJ Services, Inc., 7.000% — 8.500% 1/3/2023(b)(c)	613,639	582,957
Capstone Acquisition Hldgs, Inc. 2020 Delayed Draw Term Loan, 1M USD LIBOR — 4.750% 11/12/2027(b)(h)	399,000	2,993
Capstone Acquisition Holdings, Inc. 2020 Term Loan, 1M USD LIBOR + 4.750% — 5.750% 11/12/2027(b)(e)	2,226,000	2,242,695
See accompanying Notes to Financial Statements.		

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2020

BONDS & DEBENTURES <i>(Continued)</i>	Principal Amount	Fair Value
Cincinnati Bell, Inc., 1M USD LIBOR + 3.250% — 4.250% 10/2/2024(b)(e)	\$ 1,046,843	\$ 1,045,723
Delta Air Lines, Inc. 2020 Term Loan B 3M USD LIBOR + 4.750% — 4.965% 4/29/2023(b)(e) . . .	379,000	384,370
Frontier Communications Corp. — 5.875% 10/15/2027(b)(f)	453,000	490,373
Frontier Communications Corp., 1M USD LIBOR + 2.750% — 5.750% 10/8/2021(b)(e)	1,269,000	1,265,828
Hanjin International Corp. — 1.000% 12/23/2022(b)(c)	1,666,000	1,657,670
JC Penney Corp., Inc., 3M USD LIBOR + 4.250% — 5.250% 6/23/2023(b)(e)	471,317	31,814
JC Penney Corp., Inc., 1M USD LIBOR + 9.500% — 9.500% 4/1/2021(b)(e)	184,115	202,526
Logix Holding Co. LLC, 1M USD LIBOR + 5.750% — 6.750% 12/22/2024(b)(e)	289,230	263,199
MB2LTL, 3M USD LIBOR + 9.250% — 10.250% 11/30/2023(b)(c)(e)	184,000	184,145
McDermott Super Senior Exit LC 6/30/2024(b)(c)(h)	7,365,000	(699,675)
McDermott Intl Senior Exit LC — 0.000% 6/30/2024(b)(d)(e)(h)	807,398	(80,740)
McDermott LC, 1M USD LIBOR — 1.000% 12/31/2021(b)(c)(h)	139,899	792,385
McDermott Technology Americas, Inc., 1M USD LIBOR — 0.000% 6/30/2024(b)(e)	141,919	113,535
McDermott Technology Americas, Inc., 1M USD LIBOR + 1.000% — 1.145% 6/30/2025(b)(e) . . .	1,146,890	722,541
Mediaco Holding, Inc. Class A, 6.40000% — 8.400% 11/25/2024(b)(c)	3,699,483	3,440,519
OTG Management, LLC, 3M USD LIBOR + 7.000% — 8.000% 8/26/2021(b)(c)(e)	19,957	17,823
OTG Management, LLC, 3M USD LIBOR + 7.000% — 8.000% 8/26/2021(b)(c)(e)	53,133	47,451
OTGTL, 3M USD LIBOR + 9.000% — 10.000% 8/26/2021(b)(c)(e)	675,135	602,943
Packers Holdings LLC 2020 Incremental Term Loan, 1M USD LIBOR — 4.750% 12/4/2024(b)(e)	303,000	302,621
Packers Holdings, LLC First Lien, 1M USD LIBOR + 3.000% — 4.000% 12/4/2024(b)(e)	1,228,000	1,221,860
Polyconcept North America Holdings, Inc., 3M USD LIBOR + 4.500% — 5.500% 8/16/2023(b)(e)	590,801	555,353
QBS Parent, Inc., 3M USD LIBOR + 4.250% — 4.504% 9/22/2025(b)(e)	1,984,810	1,826,025
Solera Holdings, Inc. USD Term Loan B, 1M USD LIBOR + 2.750% — 2.897% 3/3/2023(b)(e)	1,176,610	1,166,809
Steenbok Lux Finco 2 SARL, 6M USD LIBOR + 7.875% — 7.875% 12/31/2021(b)(e)	2,214,168	2,691,414
Tech Data Corp. ABL Term Loan, 1M USD LIBOR + 3.500% — 3.645% 6/30/2025(b)(e)	852,000	856,524
Windstream Services LLC, 1M USD LIBOR + 6.250% — 7.250% 9/21/2027(b)(e)	259,693	253,526
TOTAL CORPORATE BANK DEBT (Cost \$26,785,597)		\$ 23,908,123
TOTAL BONDS & DEBENTURES — 27.5% (Cost \$106,778,520)		\$104,839,883
TOTAL INVESTMENT SECURITIES — 83.5% (Cost \$263,042,460)		\$318,755,850
SHORT-TERM INVESTMENTS — 17.9%		
State Street Bank Repurchase Agreement — 0.00% 1/4/2021 (Dated 12/31/2020, repurchase price of \$68,450,000, collateralized by \$68,879,300 principal amount U.S. Treasury Notes — 1.25% — 2.50% 2023, fair value \$69,819,040)(g)	\$68,450,000	\$ 68,450,000
TOTAL SHORT-TERM INVESTMENTS (Cost \$68,450,000)		\$ 68,450,000
TOTAL INVESTMENTS — 101.4% (Cost \$331,492,460)		\$387,205,850
Other Assets and Liabilities, net — (1.4%)		(5,257,882)
NET ASSETS — 100.0%		\$381,947,968

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2020

- (a) Non-income producing security.
- (b) Restricted securities. These restricted securities constituted 9.22% of total net assets at December 31, 2020, most of which are considered liquid by the Adviser. These securities are not registered and may not be sold to the public. There are legal and/or contractual restrictions on resale. The Fund does not have the right to demand that such securities be registered. The values of these securities are determined by valuations provided by pricing services, brokers, dealers, market makers, or in good faith under policies adopted by authority of the Fund's Board of Directors.
- (c) Investments categorized as a significant unobservable input (Level 3) (See Note 7 of the Notes to Financial Statements).
- (d) As permitted by U.S. Securities and Exchange Commission regulations, "Other" Common Stocks include holdings in their first year of acquisition that have not previously been publicly disclosed.
- (e) Variable/Floating Rate Security — The rate shown is based on the latest available information as of December 31, 2020. For Corporate Bank Debt, the rate shown may represent a weighted average interest rate. Certain variable rate securities are not based on a published rate and spread but are determined by the issuer or agent and are based on current market conditions. These securities do not indicate a reference rate and spread in their description.
- (f) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (g) Security pledged as collateral (See Note 8 of the Notes to Financial Statements).
- (h) All or a portion of this holding is subject to unfunded loan commitments. The stated interest rate reflects the weighted average of the reference rate and spread for the funded portion, if any, and the commitment fees on the portion of the loan that is unfunded. See Note 9.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS — RESTRICTED SECURITIES

December 31, 2020

Issuer	Acquisition Date(s)	Cost	Fair Value	Fair Value as a % of Net Assets
ABG Intermediate Holding 2 LLC, 3M USD LIBOR + 5.250% — 6.250% 9/27/2024	07/15/2020	\$ 211,173	\$ 216,000	0.06%
ABG Intermediate Holding 2 LLC, 3M USD LIBOR + 3.500% — 4.500% 9/27/2024	03/06/2020	333,556	338,172	0.09%
Altaba Escrow	09/27/2019	108,570	2,018,813	0.53%
Asurion LLC Second Lien, 1M USD LIBOR + 6.500% — 6.646% 8/4/2025	11/02/2020	1,165,313	1,168,744	0.31%
BJ Services, Inc., 7.000% — 8.500% 1/3/2023	01/28/2019	609,724	582,957	0.15%
Capstone Acquisition Hldgs, Inc. 2020 Delayed Draw Term Loan, 1M USD LIBOR — 4.750% 11/12/2027	11/12/2020	(1,962)	2,993	0.00%
Capstone Acquisition Holdings, Inc. 2020 Term Loan, 1M USD LIBOR + 4.750% — 5.750% 11/12/2027	11/12/2020	2,204,107	2,242,695	0.59%
Cincinnati Bell, Inc., 1M USD LIBOR + 3.250% — 4.250% 10/2/2024	07/31/2020, 08/03/2020, 08/04/2020, 11/13/2020	1,048,084	1,045,723	0.27%
Copper Earn Out Trust	12/08/2020	—	12,846	0.00%
Delta Air Lines, Inc. 2020 Term Loan B, 3M USD LIBOR + 4.750% — 4.965% 4/29/2023	11/13/2020	382,790	384,370	0.10%
Epic Games, Inc.	06/25/2020	2,499,525	2,499,525	0.65%
Frontier Communications Corp. — 5.875% 10/15/202 . .	12/10/2019	474,182	490,373	0.13%
Frontier Communications Corp., 1M USD LIBOR + 2.750% — 5.750% 10/8/2021	11/13/2020, 11/19/2020	1,265,796	1,265,828	0.33%
Hanjin International Corp. — 1.000% 12/23/2022	12/23/2020	1,657,670	1,657,670	0.43%
JC Penney Corp., Inc., 3M USD LIBOR + 4.250% — 5.250% 6/23/2023	03/30/2020, 06/08/2020, 07/08/2020	391,121	31,814	0.01%
JC Penney Corp., Inc., 1M USD LIBOR + 9.500% — 9.500% 4/1/2021	06/08/2020, 07/10/2020	137,551	202,526	0.05%
Logix Holding Co. LLC, 1M USD LIBOR + 5.750% — 6.750% 12/22/2024	03/31/2020, 06/30/2020, 09/30/2020, 12/31/2020	287,569	263,199	0.07%
MB2LTL 3M USD LIBOR + 9.250% — 10.250% 11/30/2023	12/02/2016, 01/31/2017	182,606	184,145	0.05%
MSD Real Estate Credit Opportunities Fund	06/11/2020	513,134	583,997	0.15%
McDermott International, Inc.	12/31/2020	—	248,880	0.07%
McDermott Intl Senior Exit LC 6/30/2024	07/01/2020	(151,089)	(80,740)	(0.02)%
McDermott LC, 1M USD LIBOR — 1.000% 12/31/2021	12/31/2020	1,027,726	792,385	0.21%
McDermott Super Senior Exit LC 6/30/2024	02/28/2020, 12/14/2020	58,620	(699,675)	(0.18)%
McDermott Technology Americas, Inc., 1M USD LIBOR + 1.000% — 1.145% 6/30/2025	07/20/2020, 07/29/2020, 08/03/2020, 09/01/2020, 11/02/2020, 11/30/2020, 12/31/2020, 01/05/2021	2,827,452	722,541	0.19%
McDermott Technology Americas, Inc., 1M USD LIBOR — 0.000% 6/30/2024	07/27/2020	141,919	113,535	0.03%
Mediaco Holding, Inc. Class A, 6.400% — 8.400% 11/25/2024	03/27/2020, 08/27/2020	3,669,325	3,440,519	0.90%

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

PORTFOLIO OF INVESTMENTS — RESTRICTED SECURITIES (Continued)

December 31, 2020

Issuer	Acquisition Date(s)	Cost	Fair Value	Fair Value as a % of Net Assets
Nebari Natural Resources Credit Fund I LP	08/18/2020, 10/05/2020	\$ 1,502,513	\$ 1,492,164	0.39%
OTG Management, LLC, 3M USD LIBOR + 7.000% — 8.000% 8/26/2021	10/07/2020, 11/05/2020	53,133	47,451	0.01%
OTG Management, LLC, 3M USD LIBOR + 7.000% — 10.000% 8/26/2021	10/07/2020, 12/31/2020	19,957	17,823	0.00%
OTGTL, 3M USD LIBOR + 9.000% — 10.000% 8/26/2021	08/26/2016, 02/28/2017, 05/26/2017, 06/14/2017, 08/30/2017, 11/30/2017, 01/26/2018, 03/08/2018, 05/09/2018, 05/15/2018, 06/13/2018, 07/13/2018, 08/17/2018, 10/10/2018	672,387	602,943	0.16%
PHI Group, Inc.	08/19/2019	210,879	240,399	0.06%
PHI Group, Inc. Restricted	08/19/2019	479,828	519,669	0.14%
Packers Holdings LLC 2020 Incremental Term Loan, 1M USD LIBOR — 4.750% 12/4/2024	11/12/2020, 11/19/2020	301,508	302,621	0.08%
Packers Holdings, LLC First Lien, 1M USD LIBOR + 3.000% — 4.000% 12/4/2024	11/24/2020	1,216,780	1,221,860	0.32%
Polyconcept North America Holdings, Inc., 3M USD LIBOR + 4.500% — 5.500% 8/16/2023	11/18/2019	586,512	555,353	0.15%
QBS Parent, Inc., 3M USD LIBOR + 4.250% — 4.504% 9/22/2025	04/13/2020	1,606,699	1,826,025	0.48%
Silverpeak Credit Opportunities Onshore Fund LP	11/18/2019, 05/29/2020, 08/20/2020	3,222,127	3,282,000	0.86%
Silverpeak Special Situations	09/25/2020	291,754	251,086	0.07%
Solera Holdings, Inc. USD Term Loan B, 1M USD LIBOR + 2.750% — 2.897% 3/3/2023	11/12/2020, 11/13/2020, 11/19/2020, 11/20/2020,	1,162,091	1,166,809	0.31%
Steenbok Lux Finco 2 SARL, 6M USD LIBOR + 7.875% — 7.875% 12/	03/26/2020, 06/30/2020, 12/31/2020	2,258,714	2,691,414	0.70%
Tech Data Corp. ABL Term Loan, 1M USD LIBOR + 3.500% — 3.645% 6/30/2025	11/12/2020	852,130	856,524	0.22%
Windstream Rights Offering	11/16/2020	316,231	113,432	0.03%
Windstream Services LLC, 1M USD LIBOR + 6.250% — 7.250% 9/21/2027	08/11/2020	249,693	253,526	0.07%
TOTAL RESTRICTED SECURITIES		<u>\$36,047,398</u>	<u>\$35,170,934</u>	<u>9.22%</u>

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 2020

ASSETS

Investment securities — at fair value (identified cost \$263,042,460)	\$318,755,850
Short-term investments — at amortized cost repurchase agreement	68,450,000
Cash	235,661
Foreign currencies at value (identified cost \$31)	32
Receivable for:	
Investment securities sold	1,768,247
Dividends and interest	1,254,277
Total assets	<u>390,464,067</u>

LIABILITIES

Payable for:	
Investment securities purchased	5,586,081
Advisory fees	221,797
Capital Stock repurchased	69,947
Accrued expenses and other liabilities	2,638,274
Total liabilities	<u>8,516,099</u>

NET ASSETS

\$381,947,968

SUMMARY OF SHAREHOLDERS' EQUITY

Capital Stock — par value \$1 per share; authorized 12,000,000 shares; outstanding 8,422,815 shares	\$ 8,422,815
Additional Paid-in Capital	313,137,648
Distributable earnings	<u>60,387,505</u>

NET ASSETS

\$381,947,968

NET ASSET VALUE

Common Stock net asset value per share	<u>\$ 45.35</u>
Common Stock market price per share	<u>\$ 39.91</u>

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

STATEMENT OF OPERATIONS

For the year ended December 31, 2020

INVESTMENT INCOME	
Dividends (net of foreign taxes withheld of \$64,925)	\$ 3,183,405
Interest	<u>6,366,461</u>
Total investment income	<u>9,549,866</u>
EXPENSES	
Advisory fees	2,424,069
Legal fees	335,994
Reports to shareholders	196,003
Transfer agent fees and expenses	140,936
Director fees and expenses	136,244
Audit and tax services fees	116,799
Delaware tax expense	102,182
Custodian fees	101,973
Filing fees	25,000
Administrative services fees	19,009
Other professional fees	17,263
Other	<u>26,601</u>
Total expenses	<u>3,642,073</u>
Net investment income	<u>5,907,793</u>
NET REALIZED AND UNREALIZED GAIN (LOSS)	
Net realized gain (loss) on:	
Investments	13,533,044
Investments in foreign currency transactions	(130,603)
Net change in unrealized appreciation (depreciation) of:	
Investments	1,838,958
Translation of foreign currency denominated amounts	<u>16,816</u>
Net realized and unrealized gain	<u>15,258,215</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u><u>\$21,166,008</u></u>

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

STATEMENTS OF CHANGES IN NET ASSETS

Year ended
December 31, 2020 Year ended
December 31, 2019

INCREASE (DECREASE) IN NET ASSETS

Operations:

Net investment income	\$ 5,907,793	\$ 6,097,088
Net realized gain (loss)	13,402,441	(2,797,975)
Net change in unrealized appreciation	<u>1,855,774</u>	<u>62,408,161</u>
Net increase in net assets resulting from operations	<u>21,166,008</u>	<u>65,707,274</u>
Distributions to shareholders	<u>(13,868,717)</u>	<u>(8,489,561)</u>
 Capital Stock transactions:		
Cost of Capital Stock repurchased	<u>(2,055,818)</u>	<u>(2,381,181)</u>
Net decrease from Capital Stock transactions	<u>(2,055,818)</u>	<u>(2,381,181)</u>
Total change in net assets	5,241,473	54,836,532

NET ASSETS

Beginning of Year	<u>376,706,495</u>	<u>321,869,963</u>
End of Year	<u>\$381,947,968</u>	<u>\$376,706,495</u>

CHANGE IN CAPITAL STOCK OUTSTANDING

Shares of Capital Stock repurchased	<u>(53,652)</u>	<u>(70,966)</u>
Change in Capital Stock outstanding	<u>(53,652)</u>	<u>(70,966)</u>

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

FINANCIAL HIGHLIGHTS

Selected data for each share of Capital Stock outstanding throughout each year

	Year ended December 31				
	2020	2019	2018	2017	2016
Per share operating performance:					
Net asset value at beginning of year	\$ 44.44	\$37.66	\$45.06	\$41.12	\$ 73.07
Income from investment operations:					
Net investment income(1)	\$ 0.70	\$ 0.72	\$ 0.55	\$ 0.50	\$ 0.40
Net realized and unrealized gain (loss) on investment securities	1.82	7.02	(3.79)	5.17	2.82
Total from investment operations	\$ 2.52	\$ 7.74	\$ (3.24)	\$ 5.67	\$ 3.22
Distributions to Common shareholders:					
Dividends from net investment income	\$ (1.00)	\$ (1.00)	\$ (4.20)	\$ (0.71)	\$ (1.58)
Distributions from net realized capital gains	(0.64)	—	—	(1.02)	(33.65)
Total distributions	\$ (1.64)	\$ (1.00)	\$ (4.20)	\$ (1.73)	\$ (35.23)
Capital stock repurchased	\$ 0.03	\$ 0.04	\$ 0.04	— ⁽⁵⁾	\$ 0.01
Capital contributions(2)	—	—	—	—	\$ 0.05
Net asset value at end of year	\$ 45.35	\$44.44	\$37.66	\$45.06	\$ 41.12
Per share market value at end of year	\$ 39.91	\$38.69	\$32.55	\$40.76	\$ 35.95
Total investment return(3)	7.79%	22.11%	(7.69)%	18.42%	8.13%
Net asset value total return(4)	5.98%	20.89%	(10.30)%	14.01%	9.05%
Ratios/supplemental data:					
Net assets, end of year (in \$000's)	\$381,948	\$376,706	\$321,870	\$388,264	\$355,331
Ratios based on average net assets applicable to					
Common Stock:					
Expenses	1.04%	1.00%	0.91%	0.94%	0.91%
Net investment income	1.69%	1.71%	1.23%	1.16%	0.87%
Portfolio turnover rate	57%	29%	59%	30%	35%

- (1) Per share amount is based on average shares outstanding.
- (2) In 2016, 0.13% of the Fund's net asset value total return was the result of the Adviser's reimbursement of trade errors.
- (3) Based on market value per share, adjusted for reinvestment of distributions.
- (4) Based on net asset value per share, adjusted for reinvestment of distributions.
- (5) Rounds to less than \$0.01 per share.

See accompanying Notes to Financial Statements.

SOURCE CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 1—Significant Accounting Policies

Source Capital, Inc. (the “Fund”), is registered under the Investment Company Act of 1940 as a diversified, closed-end management investment company. The investment objective of the Fund is to seek maximum total return for Common shareholders from both capital appreciation and investment income to the extent consistent with protection of invested capital. The Fund qualifies as an investment company pursuant to Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) No. 946, Financial Services—Investment Companies. The significant accounting policies followed by the Fund in the preparation of its financial statements include the following:

A. Security Valuation

The Fund’s investments are reported at fair value as defined by accounting principles generally accepted in the United States of America, (“U.S. GAAP”). The Fund generally determines its net asset value as of approximately 4:00 p.m. New York time each day the New York Stock Exchange is open. Further discussion of valuation methods, inputs and classifications can be found under Disclosure of Fair Value Measurements.

B. Use of Estimates

The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

C. Securities Transactions and Related Investment Income

Securities transactions are accounted for on the date the securities are purchased or sold. Dividend income and distributions to shareholders are recorded on the ex-dividend date. Interest income and expenses are recorded on an accrual basis. Market discounts and premiums on fixed income securities are amortized over the expected life of the securities. Realized gains or losses are based on the specific identification method. The books and records of the Fund are maintained in U.S. dollars as follows: (1) the foreign currency fair value of investment securities, and other assets and liabilities stated in foreign currencies, are translated using the daily spot rate; and (2) purchases, sales, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions. The resultant exchange gains and losses are included in net realized or net unrealized gain (loss) in the statement of operations. Distributions payable on the Common Stock are recorded on the ex-dividend date.

D. Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments eliminate certain disclosure requirements for fair value measurements for all entities, requires public entities to disclose certain new information and modifies some disclosure requirements. The new guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. The Fund has adopted the standard for the current fiscal year and the changes are incorporated into the financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transaction to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting if certain criteria are met. The guidance is effective from March 12, 2020 through December 31, 2022. As of December 31, 2020, the guidance did not have a material impact on the Financial Statements.

NOTE 2—Risk Considerations

Investing in the Fund may involve certain risks including, but not limited to, those described below.

Market Risk: Because the values of the Fund’s investments will fluctuate with market conditions, so will the value of your investment in the Fund. You could lose money on your investment in the Fund or the Fund could underperform other investments.

Common Stocks and Other Securities (Long): The prices of common stocks and other securities held by the Fund may decline in response to certain events taking place around the world, including; those directly involving companies whose securities are owned by the Fund; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations. In addition, the emphasis on a value-oriented investment approach by the Fund’s investment adviser, First Pacific Advisors, LP (“Adviser”), generally results in the Fund’s portfolio being invested primarily in medium or smaller sized companies. Smaller companies may be subject to a greater degree of change in earnings and business prospects than larger, more established companies, and smaller companies are often more reliant on key products or personnel than larger companies. Also, securities of smaller companies are traded in lower volumes than those issued by larger companies and may be more volatile than those of larger companies. The Fund’s foreign investments are subject to additional risks such as,

SOURCE CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2020

foreign markets could go down or prices of the Fund's foreign investments could go down because of unfavorable changes in foreign currency exchange rates, foreign government actions, social, economic or political instability or other factors that can adversely affect investments in foreign countries. These factors can also make foreign securities less liquid, more volatile and harder to value than U.S. securities. In light of these characteristics of smaller companies and their securities, the Fund may be subjected to greater risk than that assumed when investing in the equity securities of larger companies.

Interest Rate and Credit Risk: The values of, and the income generated by, most debt securities held by the Fund may be affected by changing interest rates and by changes in the effective maturities and credit rating of these securities. For example, the value of debt securities in the Fund's portfolio generally will decline when interest rates rise and increase when interest rates fall. In addition, falling interest rates may cause an issuer to redeem, call or refinance a security before its stated maturity, which may result in the Fund having to reinvest the proceeds in lower yielding securities. Debt securities are subject to credit risk, meaning that the issuer of the debt security may default or fail to make timely payments of principal or interest. The values of any of the Fund's investments may also decline in response to events affecting the issuer or its credit rating. The lower rated debt securities in which the Fund may invest are considered speculative and are generally subject to greater volatility and risk of loss than investment grade securities, particularly in deteriorating economic conditions.

Stripped Mortgage-Backed Interest Only ("I/O") and Principal Only ("P/O") Securities: Stripped mortgage backed securities are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. In certain cases, one class will receive all of the interest payments on the underlying mortgages (the I/O class), while the other class will receive all of the principal payments (the P/O class). The Fund currently has investments in I/O securities. The yield to maturity on I/Os is sensitive to the rate of principal repayments (including prepayments) on the related underlying mortgage assets, and principal payments may have a material effect on yield-to-maturity. If the underlying mortgage assets experience greater than anticipated prepayments of principal, a Fund may not fully recoup its initial investment in I/Os.

Repurchase Agreements: Repurchase agreements permit the Fund to maintain liquidity and earn income over periods of time as short as overnight. Repurchase agreements held by the Fund are fully collateralized by U.S. Government securities, or securities issued by U.S. Government agencies, or securities that are within the three highest credit categories assigned by established rating agencies (Aaa, Aa, or A by Moody's or AAA, AA or A by Standard & Poor's) or, if not rated by Moody's or Standard & Poor's, are of equivalent investment quality as determined by the Adviser. Such collateral is in the possession of the Fund's custodian. The collateral is evaluated daily to ensure its fair value equals or exceeds the current fair value of the repurchase agreements including accrued interest. In the event of default on the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation.

The Fund may enter into repurchase agreements, under the terms of a Master Repurchase Agreement ("MRA"). The MRA permits the Fund, under certain circumstances including an event of default (such as bankruptcy or insolvency), to offset payables and/or receivables under the MRA with collateral held and/or posted to the counterparty and create one single net payment due to or from the Fund. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against such a right of offset in the event of a MRA counterparty's bankruptcy or insolvency. Pursuant to the terms of the MRA, the Fund receives securities as collateral with a fair value in excess of the repurchase price to be received by the Fund upon the maturity of the repurchase transaction. Upon a bankruptcy or insolvency of the MRA counterparty, the Fund recognizes a liability with respect to such excess collateral to reflect the Fund's obligation under bankruptcy law to return the excess to the counterparty. Repurchase agreements outstanding at the end of the period are listed in the Fund's Portfolio of Investments.

Many countries have experienced outbreaks of infectious illnesses in recent decades, including swine flu, avian influenza, SARS and, more recently, COVID-19. The global outbreak of COVID-19 in early 2020 has resulted in various disruptions, including travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, financial markets and the economies of certain nations and individual issuers, any of which may negatively impact the Fund and its holdings. Similar consequences could arise as a result of the spread of other infectious diseases.

NOTE 3—Capital Stock

The Fund did not issue any shares of Common Stock under its Dividend Reinvestment Plan for shareholders during the year ended December 31, 2020. On November 11, 2019, the Board of Directors of the Fund terminated the Fund's stock repurchase program, which was initially approved by the Board on November 16, 2015. Effective October 5, 2020, the Board has reinstated the repurchase program through December 31, 2021. During the year ended December 31, 2020, the Fund repurchased \$53,795 of its outstanding shares at a weighted-average discount of 11.30% from net asset value per share. These repurchases were made pursuant to the stock repurchase program approved annually by the Fund's Board of Directors. Under the program, the Fund is authorized to make open-market repurchases of its common stock of up to 10% of the Fund's outstanding shares during the twelve-month period beginning January 1, 2020. The Fund expects to repurchase its common stock when the discount to NAV of the trading price of its common stock on the NYSE is greater than 10%, subject to various factors, including the ability of the Fund to raise cash to repurchase shares in a tax-efficient manner.

SOURCE CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2020

NOTE 4—Advisory Fees and Other Affiliated Transactions

Pursuant to an investment advisory agreement (the “Agreement”), the Fund pays the Adviser, monthly investment advisory fees calculated at an annual rate of 0.725% for the first \$100 million of total net assets, 0.700% for the next \$100 million of total net assets, and 0.675% for any total net assets in excess of \$200 million. The Agreement obligates the Adviser to reduce its 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) in excess of 1.5% of the first \$30 million and 1% of the remaining average net assets of the Fund for the year.

For the year ended December 31, 2020, the Fund paid aggregate fees and expenses of \$136,244 to all Directors who are not affiliated persons of the Adviser. Certain officers of the Fund are also officers of the Adviser.

NOTE 5—Purchases and Sale

Cost of purchases of investment securities (excluding short-term investments) aggregated \$173,046,152 for the year ended December 31, 2020. The proceeds and cost of securities sold resulting in net realized gains of \$12,820,594 aggregated \$187,044,925 and \$174,224,331, respectively, for the year ended December 31, 2020.

NOTE 6—Federal Income Tax

No provision for federal income tax is required because the Fund has elected to be taxed as a “regulated investment company” under the Internal Revenue Code (the “Code”) and intends to maintain this qualification and to distribute each year to its shareholders, in accordance with the minimum distribution requirements of the Code, its taxable net investment income and taxable net realized gains on investments.

Dividends and distributions paid to shareholders are based on net investment income and net realized gains determined on a tax reporting basis, which may differ from financial reporting. For federal income tax purposes, the Fund had the following components of distributable earnings at December 31, 2020:

Unrealized appreciation	\$50,999,017
Undistributed capital gains	6,872,013
Undistributed ordinary income	2,499,542

The tax status of distributions paid during the fiscal years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Dividends from ordinary income	\$8,467,285	\$2,546,898
Distributions from long-term capital gains	\$5,401,432	\$5,942,663

The Fund utilizes the provisions of federal income tax laws that provide for the carryforward of capital losses for prior years, offsetting such losses against any future realized capital gains. The Fund utilized \$1,021,538 and 1,394,812 of short-term and long-term capital losses, respectively, during the current tax year.

The cost of investment securities held at December 31, 2020 was \$336,126,642 for federal income tax purposes. Gross unrealized appreciation and depreciation for all investment at December 31, 2020, for federal income tax purposes was \$65,602,303 and \$14,603,286, respectively resulting in net unrealized appreciation of \$50,999,017. As of and during the year ended December 31, 2020, the Fund did not have any liability for unrecognized tax benefits. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the year, the Fund did not incur any interest or penalties. The statute of limitations remains open for the last 3 years, once a return is filed. No examinations are in progress at this time.

NOTE 7—Disclosure of Fair Value Measurements

The Fund uses the following methods and inputs to establish the fair value of its assets and liabilities. Use of particular methods and inputs may vary over time based on availability and relevance as market and economic conditions evolve.

Equity securities are generally valued each day at the official closing price of, or the last reported sale price on, the exchange or market on which such securities principally are traded, as of the close of business on that day. If there have been no sales that day, equity securities are generally valued at the last available bid price. Securities that are unlisted and fixed-income and convertible securities listed on a national securities exchange for which the over-the-counter (“OTC”) market more accurately reflects the securities’ value in the judgment of the Fund’s officers, are valued at the most recent bid price. However, most fixed income securities are generally valued at prices obtained from pricing vendors and brokers. Vendors value such securities based on one or more of the following inputs: transactions, bids, offers quotations from dealers and trading systems, spreads and other relationships observed in the markets among comparable securities, benchmarks, underlying equity of the issuer, and proprietary pricing models such as cash flows, financial or collateral performance and other reference data (includes prepayments, defaults, collateral, credit enhancements, and interest rate volatility). Short-term corporate notes with maturities of 60 days or less at the time of purchase are valued at amortized cost.

SOURCE CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2020

Securities for which representative market quotations are not readily available or are considered unreliable by the Adviser are valued as determined in good faith under procedures adopted by the authority of the Fund's Board of Directors. Various inputs may be reviewed in order to make a good faith determination of a security's value. These inputs include, but are not limited to, the type and cost of the security; contractual or legal restrictions on resale of the security; relevant financial or business developments of the issuer; actively traded similar or related securities; conversion or exchange rights on the security; related corporate actions; significant events occurring after the close of trading in the security; and changes in overall market conditions. Fair valuations and valuations of investments that are not actively trading involve judgment and may differ materially from valuations of investments that would have been used had greater market activity occurred.

Investments in open-end investment companies are valued at their net asset value each business day and are categorized as Level 1. The investments in limited partnerships represent investments in private funds which are valued at their net asset value as a practical expedient. The net asset value of the limited partnerships has been estimated primarily based upon the pro-rata ownership of the fair value of the limited partnerships as reported by the Management of the limited partnerships. Investments in private funds can never be redeemed. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the limited partnerships.

The Fund classifies its assets based on three valuation methodologies. Level 1 values are based on quoted market prices in active markets for identical assets. Level 2 values are based on significant observable market inputs, such as quoted prices for similar assets and quoted prices in inactive markets or other market observable inputs as noted above including spreads, cash flows, financial performance, prepayments, defaults, collateral, credit enhancements, and interest rate volatility. Level 3 values are based on significant unobservable inputs that reflect the Fund's determination of assumptions that market participants might reasonably use in valuing the assets. The valuation levels are not necessarily an indication of the risk associated with investing in those securities. The following table presents the valuation levels of the Fund's investments as of December 31, 2020:

Investments	Level 1	Level 2	Level 3	Total
Common Stocks				
Internet Media	\$ 38,986,598	—	—	\$ 38,986,598
Semiconductor Devices	20,823,841	—	—	20,823,841
Cable & Satellite	19,436,490	—	—	19,436,490
Cement & Aggregates	11,847,945	—	—	11,847,945
Diversified Banks	10,680,971	—	—	10,680,971
Industrial Distribution & Rental	9,908,943	—	—	9,908,943
P&C Insurance	9,257,565	—	—	9,257,565
Electrical Components	8,630,596	—	—	8,630,596
Investment Companies	7,864,434	—	—	7,864,434
Insurance Brokers	6,589,511	—	—	6,589,511
Base Metals	6,565,572	—	—	6,565,572
Application Software	3,864,906	—	\$ 2,499,525	6,364,431
Banks	6,077,528	—	—	6,077,528
Internet Based Services	5,699,584	—	—	5,699,584
Railroad Rolling Stock	4,305,844	—	—	4,305,844
Hotels, Restaurants & Leisure	3,887,155	—	—	3,887,155
Midstream—Oil & Gas	3,826,944	—	—	3,826,944
E-Commerce Discretionary	3,662,937	—	—	3,662,937
Apparel, Footwear & Accessory Design	3,151,731	—	—	3,151,731
Commercial & Residential Building				
Equipment & Systems	3,069,970	—	—	3,069,970
Telecom Carriers	2,786,021	—	—	2,786,021
Infrastructure Software	2,683,915	—	—	2,683,915
Medical Equipment	2,458,406	—	—	2,458,406
Real Estate Owners & Developers	1,600,936	—	—	1,600,936
Integrated Utilities	1,430,071	—	—	1,430,071
Oil & Gas Services & Equipment	983,328	—	—	983,328
Energy	760,068	—	—	760,068
Retailing	—	—	12,846	12,846
Other Common Stocks	2,553,310	—	—	2,553,310
Limited Partnerships	—	—	5,609,247	5,609,247

SOURCE CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2020

Investments	Level 1	Level 2	Level 3	Total
Preferred Stock				
Engineering Services	—	—	\$ 248,880	\$ 248,880
Closed End Fund	—	—	2,018,813	2,018,813
Rights / Warrants				
Midstream—Oil & Gas	—	—	113,432	113,432
Energy	\$ 18,104	—	—	18,104
Commercial Mortgage-Backed Securities				
Agency	—	\$ 1,162,616	—	1,162,616
Agency Stripped	—	2,688,332	—	2,688,332
Non-Agency	—	3,551,795	—	3,551,795
Residential Mortgage-Backed Securities				
Agency Collateralized Mortgage Obligation	—	806,288	—	806,288
Non-Agency Collateralized Mortgage Obligation	—	7,353,974	125,912	7,479,886
Asset-Backed Securities				
Collateralized Loan Obligation	—	24,148,474	—	24,148,474
Equipment	—	2,865,571	463,354	3,328,925
Other	—	8,215,903	—	8,215,903
Corporate Bonds & Notes	—	29,549,541	—	29,549,541
Corporate Bank Debt	—	17,362,645	6,545,478	23,908,123
Short-Term Investment	—	68,450,000	—	68,450,000
	<u>\$203,413,224</u>	<u>\$166,155,139</u>	<u>\$17,637,487</u>	<u>\$387,205,850</u>

The following table summarizes the Fund's Level 3 investment securities and related transactions during the year ended December 31, 2020:

Investments	Beginning Value at December 31, 2019	Net Realized and Unrealized Gains (Losses)*	Purchases	(Sales)	Gross Transfers In/(Out)	Ending Value at December 31, 2020	Net Change in Unrealized Appreciation (Depreciation) related to Investments held at December 31, 2020
Common Stocks							
Application Software	—	—	\$2,499,525	—	—	\$ 2,499,525	—
Common Stocks							
Energy	\$ 548,938	\$ 211,130	—	—	\$(760,068)	—	\$ 211,130
Common Stocks							
Retailing	—	12,846	—	—	—	12,846	12,846
Limited Partnerships	2,445,508	79,719	3,416,786	\$ (332,766)	—	5,609,247	79,719
Preferred Stock							
Engineering Services	—	248,880	—	—	—	248,880	248,880
Closed End Fund	2,871,422	332,084	—	(1,184,693)	—	2,018,813	332,084
Rights/Warrants							
Midstream—Oil & Gas	—	(202,798)	316,230	—	—	113,432	(202,798)

SOURCE CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2020

Investments	Beginning Value at December 31, 2019	Net Realized and Unrealized Gains (Losses)*	Purchases	(Sales)	Gross Transfers In/(Out)	Ending Value at December 31, 2020	Net Change in Unrealized Appreciation (Depreciation) related to Investments held at December 31, 2020
Residential							
Mortgage-Backed Securities							
Non-Agency Collateralized Mortgage Obligation	\$ 1,121,175	\$ (176)	—	\$(1,121,000)	\$ 125,913	\$ 125,912	\$ (175)
Asset-Backed Securities							
Equipment	579,343	(66,121)	—	(49,868)	—	463,354	(66,156)
Corporate Bank Debt	9,707,633	(1,199,918)	\$3,024,583	(4,986,820)	—	6,545,478	(1,253,719)
	<u>\$17,274,019</u>	<u>\$ (584,354)</u>	<u>\$9,257,124</u>	<u>\$(7,675,147)</u>	<u>\$(634,155)</u>	<u>\$17,637,487</u>	<u>\$ (638,189)</u>

* Net realized and unrealized gains (losses) are included in the related amounts in the statement of operations.

Level 3 Valuation Process: Investments classified within Level 3 of the fair value hierarchy are valued by the Adviser in good faith under procedures adopted by authority of the Fund's Board of Directors. The Adviser employs various methods to determine fair valuations including regular review of key inputs and assumptions, and review of related market activity, if any. However, there are generally no observable trade activities in these securities. The Adviser reports to the Board of Directors at their regularly scheduled quarterly meetings, or more often if warranted. The report includes a summary of the results of the process, the key inputs and assumptions noted, and any changes to the inputs and assumptions used. When appropriate, the Adviser will recommend changes to the procedures and process employed. The value determined for an investment using the fair value procedures may differ significantly from the value realized upon the sale of such investment. Transfers of investments between different levels of the fair value hierarchy are recorded at fair value as of the end of the reporting period.

There were transfers of \$760,068 out of Level 3 into Level 2 and \$125,913 out of Level 2 into Level 3 during the year ended December 31, 2020. Transfers out of Level 3 were due to change in valuation technique from recent trade activity to vendor priced. Transfers into Level 3 were due to change in valuation technique from vendor priced to third party broker quoted.

The following table summarizes the quantitative inputs and assumptions used for items categorized as items categorized as Level 3 of the fair value hierarchy as of December 31, 2020:

Financial Assets	Fair Value at December 31, 2020	Valuation Technique(s)	Unobservable Inputs	Price/Range	Weighted Average Price
Common Stock— Application Software	\$2,499,525	Restricted Assets(a)	Quotes/Prices	\$ 575.00	\$575.00
Common Stock— Retailing	\$ 12,846	Pricing Model(b)	Quotes/Prices	\$ 6.00	\$ 6.00
Preferred Stock— Engineering Services	\$ 248,880	Pricing Model(f)	Capital Structure	\$ 35.00	\$ 35.00
Closed-End Fund	\$2,018,813	Restricted Security(e)	Quotes/Prices	\$ 14.20	\$ 14.20

SOURCE CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2020

Financial Assets	Fair Value at December 31, 2020	Valuation Technique(s)	Unobservable Inputs	Price/Range	Weighted Average Price
Rights/Warrants— Oil & Gas Services & Equipment	\$ 113,432	Pricing Model(b)	Quotes/Prices	\$ 11.00	\$ 11.00
Residential Mortgage-Backed Securities— Non-Agency Collateralized Mortgage Obligation	\$ 125,912	Third-Party Broker Quote(c)	Quotes/Prices	\$ 100.73	\$100.73
Asset-Backed Securities— Equipment	\$ 463,354	Third-Party Broker Quote(c)	Quotes/Prices	\$ 86.00	\$ 86.00
Corporate Bank Debt	\$1,657,670	Most Recent Capitalization (Funding)(h)	Quotes/Prices	\$ 99.50	\$ 99.50
	\$ 852,362	Pricing Vendor	Prices	\$ 89.31-100.08	\$ 91.63
	\$ 888,772	Pricing Model(b)	Quotes/Prices	\$ 77.00-\$90.00	
	\$4,023,476	Pricing Model(d)	Amortized Cost	\$ 93.00-\$95.00	\$ 93.29
Limited Partnerships	\$5,609,247	NAV as Practical Expedient(g)	N/A	\$94.46-\$102.36	\$ 96.47

(a) The fair value of the investment is based on the initial purchase price. If the financial condition of the underlying assets were to deteriorate, or if the market comparables were to fall, the value of the investment could be lower.

(b) The Pricing Model technique for Level 3 securities involves recently quoted funding prices of the security.

(c) The Third Party Broker Quote technique involves obtaining an independent third-party broker quote for the security.

(d) The Pricing Model technique for Level 3 securities involves external valuation by an independent third party.

(e) The fair value of the investment is based on the most recently available last executed trade.

(f) The Pricing Model technique for Level 3 securities involves valuation of the security's position within the capital structure of the firm.

(g) No adjustments were made to the NAV provided by the administrator of the Limited Partnerships. Adjustments to the NAV would be considered if the practical expedient NAV was not as of Fund's measurement date; it was probable that the Limited Partnerships would be sold at a value materially different than the reported expedient NAV; or it was determined in accordance with the Fund's valuation procedures that the Limited Partnerships are not being reported at fair value.

(h) The significant unobservable inputs used in the fair value measurement are based on the most recent funding. If the financial condition of the underlying assets were to deteriorate, or if the market comparables were to fall, the value of this investment could be lower.

NOTE 8—Collateral Requirements

FASB Accounting Standards Update No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, requires disclosures to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards. Under this guidance the Fund discloses both gross and net information about instruments and transactions eligible for offset such as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the Fund discloses collateral received and posted in connection with master netting agreements or similar arrangements.

SOURCE CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2020

The following table presents the Fund's repurchase agreements by counterparty net of amounts available for offset under an ISDA Master agreement or similar agreements and net of the related collateral received or pledged by the Fund as of December 31, 2020, are as follows:

<u>Counterparty</u>	Gross Assets (Liabilities) in the Statement of Assets and Liabilities	Gross Amounts Not Offset in the Statement of Assets and Liabilities		Net Amount of Assets (Liabilities)*
		Collateral (Received) Pledged	Assets (Liabilities) Available for Offset	
State Street Bank and Trust Company: Repurchase Agreement	\$68,450,000	\$(68,450,000)**	—	—

* Represents the net amount receivable from the counterparty in the event of default.

** Collateral with a value of \$69,819,040 has been received in connection with a master repurchase agreement. Excess of collateral received from the individual master repurchase agreement is not shown for financial reporting purposes.

NOTE 9—Commitments

As of December 31, 2020, the Fund was liable for the following unfunded commitments:

<u>Asset Class</u>	<u>Unfunded Commitment</u>
Limited Partnerships	\$8,112,214
Corporate Bank Debt	\$9,610,314

SOURCE CAPITAL, INC. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND
BOARD OF DIRECTORS OF SOURCE CAPITAL, INC.

Opinion on the Financial Statements

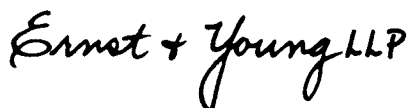
We have audited the accompanying statement of assets and liabilities of Source Capital, Inc. (the “Fund”) including the portfolio of investments, as of December 31, 2020, the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, the financial highlights for each of the three years in the period then ended, and the related notes (collectively referred to as the “financial statements”). The financial highlights for the years ended December 31, 2016, and December 31, 2017 were audited by another independent registered public accounting firm whose report, dated February 20, 2018, expressed an unqualified opinion on those financial highlights. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund at December 31, 2020, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for each of the three years in the period then ended in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the Fund’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of the Fund’s internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2020, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

The logo for Ernst & Young LLP is written in a cursive, handwritten-style font. The letters are black and the overall appearance is that of a signature or a stylized brand mark.

We have served as the auditor of one or more FPA investment companies since 2018.

Los Angeles, CA
February 26, 2021

SOURCE CAPITAL, INC.

APPROVAL OF INVESTMENT ADVISORY AGREEMENT

(Unaudited)

Approval of the Advisory Agreement. At a meeting of the Board of Directors held on August 10, 2020, the Directors approved the continuation of the advisory agreement between the Fund and the Adviser (the “Advisory Agreement”) for an additional one-year period through September 30, 2021, on the recommendation of the Independent Directors, who met in executive session on August 10, 2020 prior to the Board meeting to review and discuss the proposed continuation of the Advisory Agreement. The Board had also met on July 13, 2020, with the Independent Directors meeting separately prior to the Meeting in executive session with the management of the Adviser and then separately with independent counsel to evaluate the renewal of the Advisory Agreement. Prior to their July 13 meeting, the Independent Directors, through their independent counsel, had requested and received extensive materials prepared in connection with the review of the Advisory Agreements. The materials provided a broad range of information regarding the Fund, including a description of, among other matters, the terms of the Advisory Agreement; the services provided by the Adviser; the experience of the relevant investment personnel; the Fund’s performance in absolute terms and as compared to the performance of peers and appropriate benchmark(s); the fees and expenses of the Fund in absolute terms and as compared to peers; and the profitability of the Adviser from serving as adviser to the Fund. Following their review at the July 13 meeting, the Independent Directors requested (through their independent counsel) and received supplemental information and responses to a number of questions relating to the materials provided by the Adviser.

In addition, the Board met regularly throughout the year and received information on a variety of topics that were relevant to its annual consideration of the renewal of the Advisory Agreement including, among other matters, Fund investment performance, compliance, risk management, liquidity, valuation, trade execution and other matters relating to Fund operations. The Independent Directors also had met with management of the Adviser (including key investment personnel) at their quarterly meetings as well as with management at other times between the quarterly meetings throughout the year. The materials specifically provided in connection with the annual review of the Advisory Agreement supplement the information received throughout the year.

At their regular Board meetings and executive sessions, the Independent Directors were also assisted by independent legal counsel. In addition to the materials provided by the Adviser, the Independent Directors received a legal memorandum from independent counsel that outlined, among other matters: the duties of the Independent Directors and relevant requirements under the 1940 Act; the general principles under state law relevant to considering the approval of advisory contracts; an adviser’s fiduciary duty with respect to advisory agreements and compensation; the standards used by courts in determining whether investment advisers and investment company boards of trustees have fulfilled their duties; and factors to be considered by the Independent Directors when voting on advisory agreements. During executive session, independent legal counsel reviewed with the Independent Directors these duties, standards and factors summarized in the legal memorandum described above. The following paragraphs summarize the material information and factors considered by the Board and the Independent Directors, as well as the Directors’ conclusions relative to such factors.

Nature, Extent and Quality of Services. The Board and the Independent Directors considered information provided by the Adviser in response to their requests, as well as information provided throughout the year regarding: the Investment Adviser and its staffing in connection with the Fund, including the Fund’s portfolio manager; the scope of services supervised and provided by the Adviser; and the absence of any significant service problems reported to the Board. The Board and the Independent Directors noted that the Fund has one investment team for the equity and asset allocation portion of the Fund and another for the fixed income portion of the Fund. The equity and asset allocation portion of the Fund is managed by Steven Romick, who joined the Adviser in 1996, Brian A. Selmo, who joined the Adviser in 2008 and Mark Landecker, who joined the Adviser in 2009. The fixed income portion of the Fund is managed by Tom Atteberry, who joined the Advisor in 1997, and Abhijeet V. Patwardhan, who joined the Adviser in 2010. The Adviser noted that both portfolio management teams are supported by a team of analysts. After discussion, the Board and the Independent Directors concluded that the nature, extent, and quality of services provided by the Adviser have benefited and should continue to benefit the Fund and its shareholders.

Investment Performance. The Board and the Independent Directors reviewed the overall investment performance of the Fund. They also received information from an independent consultant, Broadridge, regarding the Fund’s performance relative to a peer group non-leveraged closed-end core funds selected by Broadridge (“Peer Group”). The Board and the Independent Directors recognize that the Fund’s investment strategy is less than 5 years old and has not yet had time to develop a meaningful, long-term track record. However, in light of the Fund’s and the Adviser’s long history, the Board and the Independent Directors noted the Adviser’s experience and track record, as well as the Fund’s long-term investment performance. The Board and the Independent Directors noted the Fund outperformed its Peer Group median for the one-year period ended March 31, 2020, underperformed its Peer Group median for the three- and five-year periods ended March 31, 2020, and outperformed its Peer Group median for the ten-year period ended March 31, 2020. In addition, the Fund underperformed the comparative blended S&P 500 Index/Barclays Aggregate Index for the one-, three-,

SOURCE CAPITAL, INC.

APPROVAL OF INVESTMENT ADVISORY AGREEMENT

(Unaudited) (Continued)

five- and ten-year, periods ended March 31, 2020. The Board and the Independent Directors concluded that the Adviser's continued management of the Fund should benefit the Fund and its shareholders.

Advisory Fees and Fund Expenses; Comparison with Peer Group and Institutional Fees. The Board and the Independent Directors considered information provided by the Adviser regarding the Fund's advisory fees and total expense levels. The Board and the Independent Directors reviewed comparative information regarding fees and expenses for the Peer Group. The Directors noted that the Fund's fees and expenses were at the low end of the range relative to the Peer Group. The Board and the Independent Directors noted that the fee rate charged to the Fund at its current asset level is similar to the fee rate charged by the Adviser on the other products managed in a similar style by the portfolio managers. The Board and the Independent Directors concluded that the continued payment of advisory fees and expenses by the Fund to the Adviser was fair and reasonable and should continue to benefit the Fund and its shareholders.

Adviser Profitability and Costs. The Board and the Independent Directors considered information provided by the Adviser regarding the Adviser's costs in providing services to the Fund, the profitability of the Adviser and the benefits to the Adviser from its relationship to the Fund. They reviewed and considered the Adviser's representations regarding its assumptions and methods of allocating certain costs, such as personnel costs, which constitute the Adviser's largest operating cost, with respect to the provision of investment advisory services. In evaluating the Adviser's profitability, they excluded certain distribution and marketing-related expenses. The Board and the Independent Directors recognized that the Adviser is entitled under the law to earn a reasonable level of profits for the services that it provides to the Fund. The Board and the Independent Directors concluded that the Adviser's level of profitability from its relationship with the Fund did not indicate that the Adviser's compensation was unreasonable or excessive.

Economies of Scale and Sharing of Economies of Scale. The Board and the Independent Directors considered whether there have been economies of scale with respect to the management of the Fund, whether the Fund has appropriately benefited from any economies of scale, and whether the fee rate is reasonable in relation to the Fund's asset levels and any economies of scale that may exist. The Board and the Independent Directors considered the Adviser's representation that its internal costs of providing investment management services to the Fund have significantly increased in recent years as a result of a number of factors, including new or increased administrative expenses resulting from recent legislative and regulatory requirements. The Board and the Independent Directors considered both quantitative and qualitative information regarding the Adviser's representation that it has also made significant investments in: (1) the portfolio management teams, analysts, traders and other investment personnel who assist with the management of the Fund; (2) new compliance, operations, and administrative personnel; (3) information technology, portfolio accounting and trading systems; and (4) office space, each of which enhances the quality of services provided to the Fund. The Board and the Independent Directors considered information regarding the Adviser's representation that such increased costs have also included a significant investment in the investment management team, and additions to administrative personnel and systems that enhance the quality of services provided to the Fund. The Board noted that the Fund does not charge sales loads.

The Independent Directors noted that the fee rate contained breakpoints as the Fund's assets increased. They considered that many registered funds have breakpoints in the advisory fee structure as a means by which to share in the benefits of potential economies of scale as a fund's assets grow. They also considered that not all funds have breakpoints in their fee structures and that breakpoints are not the exclusive means of sharing potential economies of scale. The Board and the Independent Directors considered the Adviser's statement that it believes that additional breakpoints would not be appropriate for the Fund at this time given the ongoing investments the Adviser is making in its business for the benefit of the Fund, uncertainties regarding the direction of the economy, rising inflation, increasing costs for personnel and systems, and growth or contraction in the Fund's assets, all of which could negatively impact the profitability of the Adviser. In addition, the Adviser noted that since the Fund is a closed-end fund, and based upon the Fund's current operating policies, the ability to raise additional assets is limited, and that the Fund's asset level had decreased from distributions resulting from the transition to the Fund's new investment program and from share repurchases. The Board and the Independent Directors noted that the Adviser had not proposed to increase the fee rate charged to the Fund despite the Adviser's representation that its internal costs of providing investment management services to the Fund have increased significantly in recent years as a result of a number of factors, including the Adviser's substantial investment in additional professional resources and staffing. The Board and the Independent Directors concluded that the Fund is benefitting from the ongoing investments made by the Adviser in its team of personnel serving the Fund and in the Adviser's service infrastructure, and that in light of these investments, additional breakpoints in the Fund's advisory fee structure were not warranted at current asset levels.

Ancillary Benefits. The Board and the Independent Directors considered other actual and potential benefits to the Adviser from managing the Fund, including the acquisition and use of research services with commissions generated by the Fund, in concluding

SOURCE CAPITAL, INC.

APPROVAL OF INVESTMENT ADVISORY AGREEMENT

(Unaudited) (Continued)

that the Contractual advisory and other fees are fair and reasonable for the Fund. They noted that the Adviser does not have any affiliates that benefit from the Adviser's relationship to the Fund.

Conclusions. The Board and the Independent Directors determined that the Fund continues to benefit from the services of the Adviser's highly experienced portfolio management teams, which has produced reasonable long-term returns. In addition, the Board and the Independent Directors agreed that the Fund continues to receive high quality services from the Adviser. The Board and the Independent Directors concluded that the current advisory fee rate is reasonable and fair to the Fund and its shareholders in light of the nature and quality of the services provided by the Adviser and the Adviser's profitability and costs. The Board and the Independent Directors also noted their intention to continue monitoring the factors relevant to the Adviser's compensation, such as changes in the Fund's asset levels, changes in portfolio management personnel and the cost and quality of the services provided by the Adviser to the Fund. On the basis of the foregoing, and without assigning particular weight to any single factor, none of which was dispositive, the Board and the Independent Directors concluded that it would be in the best interests of the Fund to continue to be advised and managed by the Adviser and determined to approve the continuation of the current Advisory Agreement for another one-year period through September 30, 2021.

SOURCE CAPITAL, INC.

ADDITIONAL INFORMATION REGARDING THE FUND

(Unaudited)

Changes to the Fund

The following information is a summary of certain material changes during the calendar year ended December 31, 2020. This information may not reflect all of the changes that have occurred since you purchased the Fund.

Changes to the Fund's Fundamental Investment Restrictions

At the annual meeting of shareholders held May 22, 2020, shareholders approved changes to the Fund's fundamental investment restrictions. The revised fundamental investment restrictions are intended to update the Fund's policies in line with regulatory changes and industry practices, thereby providing the Fund with flexibility to respond to changing markets, new investment opportunities and future changes in applicable law. In the near term, we anticipate that the revised fundamental investment policies will facilitate the Fund in seeking increased exposure to private-credit/loan instruments by origination, purchase on the secondary market, or by investing in a fund that holds these instruments, consistent with the investment strategies set forth in the Fund's applicable disclosure documents. In addition, certain of the revised policies are designed so that they may be interpreted in accordance with applicable securities laws, rules, regulations or exemptions, as interpreted, modified or applied by relevant regulatory authority from time to time. This flexible design will allow the Fund to take advantage of potentially favorable investment opportunities consistent with both current and future changes in applicable law and regulatory guidance, without needing to seek additional costly and time-consuming shareholder approvals. The revised fundamental policies are expected to further facilitate effective management of the Fund's assets and to simplify the process of monitoring compliance with the Fund's fundamental investment policies.

Below is a list of the new fundamental investment restrictions approved by shareholders on May 22, 2020 that supersede and replace the Fund's prior list of fundamental investment restrictions in its entirety. Except as otherwise noted, all percentage limitations set forth below apply immediately after a purchase and any subsequent change in any applicable percentage resulting from market fluctuations does not require any action. With respect to the limitations on the issuance of senior securities and in the case of borrowings, the percentage limitations apply at the time of issuance and on an ongoing basis. These restrictions provide that the Fund shall not:

1. purchase or sell physical commodities unless acquired as a result of ownership of securities or other instruments, provided that this restriction shall not prohibit the Fund from purchasing, selling or entering into financial derivative or commodities contracts, such as futures contracts, options on futures contracts, foreign currency forward contracts, foreign currency options, hybrid instruments, or any interest rate or securities-related or foreign currency-related hedging instrument, including swap agreements and other derivative instruments, subject to compliance with any applicable provisions of the federal securities or commodities laws.
2. purchase or sell real estate, except it may purchase securities or instruments secured by real estate or interests therein, or securities or instruments issued by companies which deal, invest or otherwise engage in real estate, or interests therein.
3. borrow money or issue senior securities, except as permitted by or to the extent not prohibited by applicable securities laws, rules, regulations or exemptions, as interpreted, modified or applied by regulatory authority having jurisdiction from time to time.
4. invest in a security if, as a result of such investment, more than 25% of its total assets would be invested in the securities of one or more issuers conducting their principal business activities in a particular industry or group of industries, provided this restriction does not apply to: (i) securities issued or guaranteed by the U.S. government or any of its agencies or instrumentalities; and (ii) repurchase agreements collateralized by the instruments described in the preceding clause.
5. make loans to other persons, except as permitted by or to the extent not prohibited by applicable securities laws, rules, regulations or exemptions, as interpreted, modified or applied by regulatory authority having jurisdiction from time to time.
6. underwrite securities of other issuers, except insofar as the Fund may be deemed to be an underwriter under the Securities Act of 1933 in connection with the purchase or sale of its portfolio securities, and except as permitted by or to the extent not prohibited by applicable securities laws, rules, regulations or exemptions, as interpreted, modified or applied by regulatory authority having jurisdiction from time to time.

SOURCE CAPITAL, INC.

ADDITIONAL INFORMATION REGARDING THE FUND

(Unaudited) (Continued)

Other Changes to the Fund

Except for the changes noted above, during the calendar year ended December 31, 2020, there have been: (i) no material changes to the Fund's investment objectives and policies that constitute its principal portfolio emphasis that have not been approved by shareholders; (ii) no material changes to the Fund's principal risks; (iii) no changes to the persons primarily responsible for day-to-day management of the Fund; and (iv) no changes to the Fund's charter or by-laws that would delay or prevent a change of control.

Investment Objective and Strategies

Investment Objective. The Fund's investment objective, which cannot be changed without shareholder approval, is to seek maximum total return for holders of the Fund's common stock (the "Common Shareholders") from both capital appreciation and investment income to the extent consistent with protection of invested capital. This means that the Fund does not invest in securities offering higher current yields or the greatest opportunities for capital appreciation if it is perceived that such investment would create undue risk of loss of capital. There can be no assurance that the Fund will achieve its investment objective or be able to structure its investment portfolio as anticipated.

Investment Strategies. The Fund strives to accomplish its investment objective over a full market cycle, which First Pacific Advisors, LP ("FPA" or the "Adviser") generally considers to be five to seven years. The Fund employs a balanced strategy using equity and fixed-income investments to try to meet this goal. The Fund is co-managed by two of the Adviser's portfolio management teams: FPA Contrarian Value (CV) and FPA Absolute Fixed Income (AFI) teams. Generally, 50%-70% of the Fund's assets will be allocated to the sleeve of the Fund managed by the CV team. The CV team invests the assets allocated to the CV Sleeve in equity securities and in private-credit/loan instruments. Generally, 30%-50% of the Fund's assets will be allocated to the sleeve of the Fund managed by the AFI team. The AFI team currently invests the assets allocated to the AFI Sleeve in fixed income securities. The Fund will vary its allocation over time as a function of the opportunity set based on the CV team's evaluation of available investment opportunities. The Fund invests in public equities of large businesses from around the world, private-credit/loan instruments, and in fixed income securities, both investment and non-investment grade. The portfolio managers utilize an investment philosophy that is consistent with the Adviser's overall value-oriented strategies.

CV Objective. The CV sleeve of the Fund will be managed in a fashion consistent with the principles of the FPA CV strategy. The portfolio managers seek for the CV Sleeve to generate market-beating returns over the long-term while taking similar risk than the market and avoiding permanent impairment of capital on the total portfolio.

CV Investment Philosophy—Absolute Value Investing. The CV team invests in positions that it believes offer a compelling economic risk/reward proposition on an absolute basis. The CV team's flexible mandate allows pursuit of an "absolute" path to value investing, in which success is measured by positive returns.

The CV team believes it can produce attractive returns based on the following factors:

- A flexible mandate, allowing the team to invest in a variety of industries and geographies while frequently holding cash and greatly enhancing the likelihood of an equity-like return with less risk over the long term;
- Long-term focus, which the team thinks of as generally five to seven years;
- Macro-economic considerations, which the team believes is relatively rare among value investors; and
- Targeting investments with advantageous upside/downside characteristics, whereby the team uses due diligence and, in some cases, differentiated knowledge to seek asymmetric payoffs to low risks.

CV Investment Process. The CV team finds opportunities for the Fund in the following types of equities that generally have market values greater than \$10 billion at the time of purchase:

- Businesses with great competitive strength, positive balance sheets and shareholder-centric management;
- Businesses that the team's assessment believes will have a 3:1 ratio of potential gain to potential loss;

SOURCE CAPITAL, INC.

ADDITIONAL INFORMATION REGARDING THE FUND

(Unaudited) (Continued)

- Businesses about which the team has identified certain catalysts expected to have a positive impact, such as operational turnarounds, balance sheet optimization and corporation action; and
- Businesses that the team believes have disparate parts whose aggregate value exceed its current stock price.

The CV team also finds opportunities for the Fund in private credit investments/loans by origination, purchase on the secondary market, or by investing in a fund that holds these instruments.

AFI Objective. The AFI Sleeve seeks to provide long-term total return, which includes income and capital appreciation, while considering capital preservation.

AFI Investment Philosophy. The AFI team adheres to the following principles:

- Absolute return: the team considers positions that meet fundamental research criteria, not a position's opportunity relative to other alternatives;
- Flexible mandate: the team is not restricted to any one benchmark or index, is not limited to certain types or durations of fixed income assets and may hold cash in the absence of attractive investment opportunities;
- Long-term focus: the team expects to hold investments to maturity unless fundamental valuation parameters change and considers its investment time horizon to be three to five years;
- Alignment of interest: the team invests alongside investors in the team's strategy;
- Strict risk/reward parameters: the team considers risk of permanent loss and margins of safety as critical elements; and
- Independent decision making: the team believes it is independent in its decision-making.

AFI Investment Process. The AFI team seeks to invest in individual securities that adequately compensate for the potential risk of permanent capital loss and that meet the objectives described above. The team starts with 100% cash, then adds individual investments that meet strategy's risk/reward criteria. As a result, cash is the residual of the team's investment process.

In applying its investment process to fixed income, the team divides the bond market into two segments:

- High-Quality—(Securities rated A and above). Price movement in high-quality bonds is closely linked to macroeconomic factors such as the level of interest rates and inflation, as well as economic cycles and monetary and fiscal policy. Nevertheless, though duration is a primary driver of returns (both near term and long term), the team does not ignore credit risk. Instead, the team seeks to understand bond-specific and sector-specific credit risk. The investment process seeks to identify high-quality bonds that meet the absolute return criteria of compensating for the risk of permanent capital loss while also providing limited exposure to near-term price movements caused by macroeconomic factors.
- Credit-Sensitive—(Securities rated BBB and below). Price movement in credit-sensitive bonds is primarily linked to the credit quality of the issuer and the issuer's willingness and ability to meet its contractual interest and principal payments. As such, though the team evaluates duration risk, the team focuses its research on understanding credit risk.

The AFI strategy maintains at least 25% of the AFI Sleeve's total assets in securities rated "A" or higher (or its equivalent) by a nationally recognized statistical rating organization ("NRSRO") at time of purchase. If the security is rated by more than one NRSRO, the lowest rating shall be utilized. "A," "BBB," or equivalent includes the plus (+) or minus (-) within the rating category. Further, the AFI strategy may invest up to 25% of the AFI Sleeve's total assets at time of purchase in: (i) non-U.S. dollar denominated securities of U.S. and non-U.S. issuers; and (ii) U.S. dollar denominated securities of non-U.S. issuers. An issuer is generally classified as non-U.S. if it is domiciled outside of the United States and derives a significant amount of its assets, revenues, or operating profits from non-U.S. countries. Conversely, an issuer domiciled outside of the United States is generally classified a U.S. issuer if a significant amount of its assets, revenues, or operating profits is U.S. based. Determination of whether an issuer is a non-U.S. issuer is made by the portfolio managers in their discretion.

SOURCE CAPITAL, INC.

ADDITIONAL INFORMATION REGARDING THE FUND

(Unaudited) (Continued)

The AFI strategy may invest up to 10% of the AFI Sleeve's total assets at time of purchase in preferred shares, including convertible preferred shares. The AFI strategy may also invest up to 5% of the AFI Sleeve's total assets at time of purchase in derivatives, exchange-traded funds ("ETFs") and currencies not used for hedging purposes and uncovered (naked) short positions. For the avoidance of doubt, options, futures, swaps, other derivatives, ETFs and securities sold short are excluded from the 5% limit to the extent such investments are used for hedging purposes to seek to minimize the impact of losses to one or more investments.

The AFI team monitors each investment in the portfolio to ensure that its fundamental performance is consistent with its investment thesis. In addition, as interest rates and spreads change, the team reviews each holding to ensure that it continues to offer adequate compensation for credit risk and duration risk. To the extent that an investment's fundamental performance is inconsistent with the team's expectations and/or an investment no longer offers the Fund adequate returns for the credit risk or duration risk, the team will seek to reduce or eliminate the Fund's exposure to that investment.

Additional Information about Principal Investment Strategies

To pursue the Fund's investment objective, the portfolio managers generally invest the Fund's assets in common stocks and other securities of international and U.S. companies and a diversified portfolio debt securities, cash and cash equivalents, including but not limited to the following securities.

Fixed Income Instruments. The Fund may invest in fixed income instruments, such as high yield corporate debt securities, or bonds, or U.S. government debt securities. The issuer of a fixed income instrument pays the investor a fixed- or variable-rate of interest and normally must repay the amount borrowed on or before maturity. Certain bonds are "perpetual" in that they have no maturity date. Holders of fixed income bonds, as creditors, have a prior legal claim over common and preferred stockholders as to both income and assets of the issuer for the principal and interest due them and may have a prior claim over other creditors but would be subordinate to any existing secured lenders with higher priority in the issuer's capital structure. Fixed income instruments may be secured or unsecured. The investment return of corporate bonds reflects interest on the security and changes in the market value of the security. The market value of a corporate bond, especially a fixed-rate bond, will generally rise and fall inversely with interest rates. The value of intermediate- and longer-term corporate bonds normally fluctuates more in response to changes in interest rates than does the value of shorter-term corporate bonds. The market value of a corporate bond also may be affected by the credit rating of the corporation, the corporation's performance and perceptions of the corporation in the market place. There is a risk that the issuers of the securities may not be able to meet their obligations on interest or principal payments at the time called for by an instrument. Corporate fixed income instruments usually yield more than government or agency bonds due to the presence of credit risk.

Equity Securities. Equity securities represent ownership shares in a company, and include securities that convey an interest in, may be converted into or give holders a right to purchase or otherwise acquire such ownership shares in a company.

Common Stock. Common stocks represent shares of ownership in a company. After other company obligations are satisfied, common stockholders participate in company profits on a pro rata basis; profits may be paid out in dividends or reinvested in the company to help it grow. Increases and decreases in earnings are usually reflected in a company's stock price, so common stocks generally have the greatest appreciation and depreciation potential of all corporate securities. Ownership of common stock of a non-U.S. company may be represented by depositary receipts (which are certificates evidencing ownership of securities of a non-U.S. issuer).

Preferred Stock. Preferred stock is typically subordinated to an issuer's senior debt, but senior to the issuer's common stock. Typically, preferred stock is structured as a long-dated or perpetual bond that distributes income on a regular basis. Issuers are permitted to skip ("non-cumulative" preferred stock) or defer ("cumulative" preferred stock) distributions. Preferred stock may be convertible into common stock and may contain call or maturity extension features.

Warrants. Warrants are options to buy a stated number of shares of common stock at a specified price anytime during the life of the warrants (generally two or more years). They can be highly volatile and may have no voting rights, pay no dividends, and have no rights with respect to the assets of the entity issuing them.

Non-U.S. Securities. The Fund may invest in securities of U.S.-dollar denominated non-U.S. issuers traded in the United States and in non-U.S. currency-denominated securities of non-U.S. issuers. For purposes of this prospectus, non-U.S. issuers are generally non-U.S. governments or companies either domiciled outside the U.S. or traded on non-U.S. exchanges, but the portfolio managers may

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make a different designation in certain circumstances. The non-U.S. issuers that the Fund may invest in include issuers with significant exposure to countries with developing economies and/or markets.

Cash Equivalents. Cash equivalents are short-dated instruments that are readily convertible into cash. They may include bank obligations, commercial paper, and repurchase agreements. Bank obligations include certificates of deposit and bankers' acceptances. Commercial paper is a short-term promissory note issued by a corporation, which may have a floating or variable rate. Repurchase agreements are transactions under which the Fund purchases a security from a dealer counterparty and agrees to resell the security on a specified future date at the same price, plus a specified interest rate.

Private Funds. The Fund may invest in unaffiliated and unregistered private investment funds, including those engaged in direct lending, managed by unaffiliated third-party external portfolio managers, who have discretionary authority over the Fund's investments in such private funds.

U.S. Government Securities. The U.S. government sector includes fixed income securities issued by the U.S. government or its agencies and instrumentalities, such as U.S. Treasury and U.S. government agency securities, mortgage pass-through securities, including Government National Mortgage Association (Ginnie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae), and agency mortgage-backed securities.

Mortgage-Backed Securities. In addition to the U.S. government mortgage-pass through securities described above, the mortgage sector includes non-agency mortgage-backed securities, such as CMOs, commercial-mortgage backed securities, residential mortgage-backed securities and single-and multi-class pass-through securities. Mortgage-backed securities represent direct or indirect participation in mortgage loans secured by real property.

Stripped Securities. Some of the U.S. government and non-agency mortgage-pass through and mortgage-backed securities in which the Fund invests are "stripped securities" i.e., they represent distributions of a specific source of cash flow on a pool of mortgage assets (e.g. interest payments, principal payments, prepayment penalties). The Fund may invest in stripped securities which can be highly sensitive to the rate of principal payments on the underlying mortgage securities. Stripped securities can produce higher yields than more traditional securities. However, stripped mortgage securities are highly sensitive to changes in interest and prepayment rates. As a result, such securities are extremely volatile.

Asset-Backed Securities. Asset-backed securities are bonds issued through special purpose vehicles and backed by pools of loans, other receivables or other assets. Asset-backed securities are created from many types of assets, such as home equity loans, auto loans, student loans and credit card receivables. The credit quality of an asset-backed security depends on the quality and performance of the underlying assets and/or the level of any credit support provided by the securitization structure. The proportions of the Fund's portfolio invested in various types of asset-backed securities will depend on many factors, including the portfolio managers' appraisal of the economy, yield, credit quality, macroeconomic factors and capital appreciation potential, among others. To the extent the Fund focuses its investments in a particular type of asset-backed security, it may be more susceptible to economic conditions and risks affecting the type of asset-backed security.

Corporate Debt Securities. The Fund may invest in corporate bonds, bank debt, notes and commercial paper of varying maturities and may invest in domestic bonds, bank debt and notes and those issued by non-U.S. corporations and governments. Issuers of these securities have a contractual obligation to pay interest at a specified rate on specified date and to repay principal on a specified maturity date, and may have provisions that allow the issuer to redeem or "call" the security before its maturity.

Sovereign and Government-Related Debt. Sovereign debt includes securities issued or guaranteed by a non-U.S. sovereign government or its agencies, authorities, or political subdivisions. Government-related debt includes securities issued by non-U.S. regional or local governmental entities or government-controlled entities. In the event an issuer of sovereign debt or government-related debt is unable or unwilling to make scheduled payments of interest or principal, holders may be asked to participate in a restructuring of the debt and to extend further credit to the issuer. In the event of a default by such an issuer, there may be few or no effective legal remedies for collecting on such debt.

Below Investment Grade Instruments. The Fund may invest in instruments that are classified as "higher-yielding" (and, therefore, higher-risk) investments. In most cases, such investments will be rated below investment grade by recognized rating agencies or will be unrated instruments determined by the Adviser to be appropriate investments for the Fund. While generally providing greater income and opportunity for gain, non-investment grade debt securities and similar debt instruments may be subject to greater risks

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than securities or instruments that have higher credit ratings, including a high risk of default. The credit rating of a high yield security does not necessarily address its market value risk, and ratings may from time to time change, positively or negatively, to reflect developments regarding the issuer's financial condition. High yield securities and similar instruments often are considered to be speculative with respect to the capacity of the issuer to timely repay principal and pay interest or dividends in accordance with the terms of the obligation and may have more credit risk than higher rated securities. Lower grade securities and similar debt instruments may be particularly susceptible to economic downturns. It is likely that a prolonged or deepening economic recession could adversely affect the ability of borrowers issuing such securities and similar debt instruments to repay principal and pay interest on the instrument, increase the incidence of default and severely disrupt the market value of the securities and similar debt instruments.

The prices of credit instruments generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of instruments also is inversely related to the interest rate of such instruments. Accordingly, lower grade instruments may be relatively less sensitive to interest rate changes than higher quality instruments of comparable maturity, because of their higher interest rate. This higher interest rate is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with lower grade instruments potentially can have a greater effect on the value of such instruments than may be the case with higher quality issues of comparable maturity, and may be a substantial factor in the Fund's relative share price volatility.

Convertible Securities. Convertible securities include bonds, debentures, notes, preferred stocks and other securities that entitle the holder to acquire common stock or other equity securities of the same or a different issuer. Convertible securities have general characteristics similar to both debt and equity securities. A convertible security generally entitles the holder to receive interest or preferred dividends paid or accrued until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities have characteristics similar to non-convertible debt obligations. Convertible securities rank senior to common stock in a corporation's capital structure and, therefore, generally entail less risk than the corporation's common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a debt obligation. A convertible security may be subject to redemption at the option of the issuer at a predetermined price. If a convertible security held by the Fund is called for redemption, the Fund would be required to permit the issuer to redeem the security and convert it to underlying common stock, or would sell the convertible security to a third party, which may have an adverse effect on the Fund's ability to achieve its investment objective. The price of a convertible security often reflects variations in the price of the underlying common stock in a way that non-convertible debt may not. The value of a convertible security is a function of (i) its yield in comparison to the yields of other securities of comparable maturity and quality that do not have a conversion privilege and (ii) its worth if converted into the underlying common stock.

Repurchase Agreements. Repurchase agreements permit the Fund to maintain liquidity and earn income over periods of time as short as overnight. Repurchase agreements held by the Fund are fully collateralized by U.S. Government securities, or securities issued by U.S. Government agencies, or securities that are within the three highest credit categories assigned by established rating agencies (Aaa, Aa, or A by Moody's or AAA, AA or A by Standard & Poor's) or, if not rated by Moody's or Standard & Poor's, are of equivalent investment quality as determined by the Adviser. Such collateral is in the possession of the Fund's custodian. The collateral is evaluated daily to ensure its market value equals or exceeds the current market value of the repurchase agreements including accrued interest. In the event of default on the obligation to repurchase, the Fund has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation.

The Fund may enter into repurchase agreements, under the terms of a Master Repurchase Agreement ("MRA"). The MRA permits the Fund, under certain circumstances including an event of default (such as bankruptcy or insolvency), to offset payables and/or receivables under the MRA with collateral held and/or posted to the counterparty and create one single net payment due to or from the Fund. However, bankruptcy or insolvency laws of a particular jurisdiction may impose restrictions on or prohibitions against such a right of offset in the event of a MRA counterparty's bankruptcy or insolvency. Pursuant to the terms of the MRA, the Fund receives securities as collateral with a market value in excess of the repurchase price to be received by the Fund upon the maturity of the repurchase transaction. Upon a bankruptcy or insolvency of the MRA counterparty, the Fund recognizes a liability with respect to such excess collateral to reflect the Fund's obligation under bankruptcy law to return the excess to the counterparty. Repurchase agreements outstanding at the end of the period are listed in the Fund's Portfolio of Investments.

Covered Bonds. Covered bonds are debt securities issued by banks and are secured by collateral, typically mortgages. In the event of a default, bondholders also have an unsecured claim against the issuing bank if the underlying collateral is insufficient to repay amounts owing in respect of the bonds.

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Zero Coupon Securities. Special tax considerations are associated with investing in high yield bonds structured as zero coupon or pay-in-kind securities. The Fund does not receive any cash interest on such bonds until the bond matures, but the interest on these securities is accrued as income. Similarly, the inflation accretion income recorded on inflation-indexed notes is not received until maturity. The Internal Revenue Code requires the Fund to distribute such income to its shareholders. Thus, the Fund may have to dispose of securities when it might not want to in order to provide the cash necessary to make distributions to those shareholders who do not reinvest dividends.

Temporary Investments. During temporary defensive periods, the Fund may deviate from its investment objective and investment strategies. During such periods, the Fund may invest all or a portion of its assets in certain short-term (less than one year to maturity) and medium-term (not greater than five years to maturity) debt securities or hold cash and cash equivalents. The short- and medium-term debt securities in which the Fund may invest include (i) obligations of the U.S. government, its agencies or instrumentalities; (ii) bank deposits and bank obligations (including certificates of deposit, time deposits and bankers' acceptances) of U.S. or foreign banks denominated in any currency; (iii) floating rate securities and other instruments denominated in any currency issued by various governments or international development agencies; (iv) finance company and corporate commercial paper and other short-term corporate debt obligations of U.S. or foreign corporations; (v) repurchase agreements with banks and broker-dealers with respect to such securities; and (vi) money market instruments.

As part of its normal operations, the Fund may hold cash or invest a portion of its portfolio in short-term interest bearing U.S. dollar denominated securities, pending investments. Investments in such short-term debt securities can generally be sold easily and have limited risk of loss, but earn only limited returns.

The portfolio managers' emphasis on a value-oriented investment approach could result in a portfolio that does not reflect the national economy, differs significantly from broad market indices and consists of securities considered by the average investor to be unpopular or unfamiliar.

Percentage Investment Limitations. Unless otherwise stated, all percentage limitations on Fund investments listed in this prospectus will apply at the time of purchase. The Fund would not violate these limitations unless an excess or deficiency occurs or exists immediately after and as a result of an investment.

Other Investments and Techniques. The Fund may invest in other types of securities and use a variety of investment techniques and strategies which are not principal investment strategies and are not described in this prospectus. These securities and techniques may subject the Fund to additional risks. Please see the SAI for additional information about the securities and investment techniques described in this prospectus and about additional securities and techniques that may be used by the Fund.

Leverage. The Fund may utilize financial leverage for investment purposes (i.e., to purchase additional portfolio securities consistent with the Fund's investment objective and strategies and the 1940 Act and the rules thereunder). Although the Fund may use leverage as discussed below, there can be no assurance that the Fund will utilize financial leverage or that, if utilized, the Fund will be successful during any period in which leverage is employed. Generally speaking, if the Fund can invest the proceeds from financial leverage in portfolio securities that have higher rates of return than the costs of such financial leverage and other expenses of the Fund, then the Common Shareholders would have a net benefit. As a closed-end investment company, the Fund may issue senior securities, such as shares of preferred stock ("Preferred Stock"), consistent with the 1940 Act and the rules thereunder. The Fund currently does not have any senior securities outstanding.

Under the 1940 Act, the Fund generally may not declare any dividend or other distribution upon any class of its capital shares, or purchase any such capital shares, unless the aggregate indebtedness of the Fund has, at the time of the declaration of such dividend or distribution, or at the time of any such purchase, an asset coverage of at least 300% after deducting the amount of such dividend, distribution or purchase price, as the case may be. With respect to asset coverage for Preferred Stock, if applicable, under the 1940 Act, the Fund is not permitted to issue Preferred Stock unless immediately after such issuance the NAV of the Fund's portfolio is at least 200% of the liquidation value of the outstanding Preferred Stock (i.e., such liquidation value may not exceed 50% of the Fund's total net assets (less the Fund's obligations under senior securities representing indebtedness)). In addition, the Fund is not permitted to declare any cash dividend or other distribution on shares of the Fund's common stock (the "Common Shares") unless, at the time of such distribution, the NAV of the Fund's portfolio (determined after deducting the amount of such dividend or other distribution) is at least 200% of such liquidation value. If the Fund uses a combination of borrowing (including notes and other securities representing indebtedness) and issuing Preferred Stock, the maximum asset coverage required would be between 300% and 200% depending on the relative amounts of borrowings and Preferred Stock.

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Leverage creates risks for holders of the Common Shares, including the likelihood of greater volatility in the NAV and market price of, and distributions on, the Common Shares. There is a risk that fluctuations in the distribution rates on any outstanding Preferred Stock or notes may adversely affect the return to the holders of the Common Shares. If the income from the investments purchased with such funds is not sufficient to cover the cost of leverage, the return on the Fund will be less than if leverage had not been used, and therefore the amount available for distribution to Common Shareholders will be reduced. The Fund in its reasonable judgment nevertheless may determine to maintain the Fund's leveraged position if it deems such action to be appropriate in the circumstances.

Changes in the value of the Fund's investment portfolio (including investments bought with the proceeds of leverage) will be borne entirely by the Common Shareholders. If there is a net decrease (or increase) in the value of the Fund's investment portfolio, the leverage will decrease (or increase) the NAV per common share to a greater extent than if the Fund were not leveraged. The use of leverage by the Fund may magnify the Fund's losses when there is a decrease in the value of a Fund investment and even totally eliminate the Fund's equity in its portfolio or a Common Shareholder's equity in the Fund. During periods in which the Fund is using leverage, the fees paid by the Fund for investment advisory services will be higher than if the Fund did not use leverage because the investment advisory fees paid will be calculated on the basis of the Fund's total net assets, which include proceeds from leverage. If Preferred Stock are used, holders of Preferred Stock will have rights to elect a minimum of two directors. This voting power may negatively affect Common Shareholders, and the interests of holders of Preferred Stock may otherwise differ from the interests of Common Shareholders. Any directors elected by preferred shareholders will represent both Common Shareholders and holders of Preferred Stock. Such directors may have a conflict of interest when the interests of Common Shareholders differ from those of holders of Preferred Stock.

Capital raised through leverage will be subject to distribution and/or interest payments, which may exceed the income and appreciation on the assets purchased. The issuance of Preferred Stock or notes involves offering expenses and other costs and may limit the Fund's freedom to pay distributions on Common Shares or to engage in other activities. All costs of offering and servicing any of the leverage methods the Fund may use will be borne entirely by the Fund's Common Shareholders. The interests of persons with whom the Fund enters into leverage arrangements (such as bank lenders, note holders and preferred shareholders) will not necessarily be aligned with the interests of the Fund's Common Shareholders and such persons will have claims on the Fund's assets that are senior to those of the Fund's Common Shareholders. Leverage creates an opportunity for a greater return per common share, but at the same time it is a speculative technique that will increase the Fund's exposure to capital risk.

In connection with a credit facility, any lender may impose specific restrictions as a condition to borrowing. The credit facility fees may include, among other things, up front structuring fees and ongoing commitment fees (including fees on amounts undrawn on the facility) in addition to the traditional interest expense on amounts borrowed. The credit facility may involve a lien on the Fund's assets. Similarly, to the extent the Fund issues Preferred Stock or notes, the Fund currently intends to seek an AAA or equivalent credit rating from one or more NRSROs on any Preferred Stock or notes it issues and the Fund may be subject to fees, covenants and investment restrictions required by the NRSRO as a result. Such covenants and restrictions imposed by a NRSRO or lender may include asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these covenants or restrictions will significantly impede the Adviser in managing the Fund's portfolio in accordance with its investment objective and policies. Nonetheless, if these covenants or guidelines are more restrictive than those imposed by the 1940 Act, the Fund may not be able to utilize as much leverage as it otherwise could have, which could reduce the Fund's investment returns. In addition, the Fund expects that any notes it issues or credit facility it enters into would contain covenants that, among other things, may impose geographic exposure limitations, credit quality minimums, liquidity minimums, concentration limitations and currency hedging requirements on the Fund. These covenants would also likely limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change fundamental investment policies and engage in certain transactions, including mergers and consolidations. Such restrictions could cause the Adviser to make different investment decisions than if there were no such restrictions and could limit the ability of the Board and Common Shareholders to change fundamental investment policies.

The Fund's willingness to utilize leverage, and the amount of leverage the Fund will assume, will depend on many factors, the most important of which are market conditions and interest rates. Successful use of a leveraging strategy may depend on the Fund's ability to predict correctly interest rates and market movements, and there is no assurance that a leveraging strategy will be successful during any period in which it is employed. Any leveraging of the Common Shares cannot be achieved until the proceeds resulting from the use of leverage have been invested in accordance with the Fund's investment objective and policies.

If the Fund uses leverage, the amount of fees paid to the Adviser for its services will be higher than if the Fund does not use leverage because the fees paid are calculated based on total net assets, which includes assets purchased with leverage. Therefore, the Adviser has a financial incentive to use leverage, which creates a conflict of interest between the Adviser and Common Shareholders,

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as only the Common Shareholders would bear the fees and expenses incurred through the Fund's use of leverage. The Fund's willingness to use leverage, and the extent to which leverage is used at any time, will depend on many factors, including among other things, the Adviser's assessment of the yield curve, interest rate trends, market conditions and other factors.

RISK FACTORS

An investment in the Fund's Common Shares may be speculative in that it involves a high degree of risk and should not constitute a complete investment program. Before making an investment decision, you should carefully consider the following risk factors, together with the other information contained in the prospectus. If any of these risks discussed in this prospectus occurs, the Fund's results of operations could be materially and adversely affected. If this were to happen, the price of the Fund's Common Shares could decline significantly and you could lose all or a part of your investment.

Risks Associated with Investing in Equities. Equity securities, generally common stocks, preferred stocks and/or depositary receipts held by the Fund may experience sudden, unpredictable drops in value or long periods of decline in value. This may occur because of factors that affect the securities markets generally, such as adverse changes in economic or political conditions, the general outlook for corporate earnings, interest rates or investor sentiment. Sustained periods of market volatility, either globally or in any jurisdiction in which the Fund invests, may increase the risks associated with an investment in the Fund. Equity securities may also lose value because of factors affecting an entire industry or sector, such as increases in production costs or factors directly related to a specific company, such as decisions made by its management.

Common stock of an issuer in the Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments because, among other reasons, the issuer of the security experiences a decline in its financial condition. Common stock is subordinated to preferred stocks, bonds and other debt instruments in a company's capital structure, in terms of priority with respect to corporate income, and therefore will be subject to greater dividend risk than preferred stocks or debt instruments of such issuers. In addition, while broad market measures of common stocks have historically generated higher average returns than fixed income securities, common stocks have also experienced significantly more volatility in those returns. Because preferred stock is generally junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics.

Fixed Income Instruments Risk. The Fund invests in loans and other types of fixed income instruments and securities. Such investments may be secured, partially secured or unsecured and may be unrated, and whether or not rated, may have speculative characteristics. The market price of the Fund's investments will change in response to changes in interest rates and other factors. Generally, when interest rates rise, the values of fixed income instruments fall, and vice versa. In typical interest rate environments, the prices of longer-term fixed income instruments generally fluctuate more than the prices of shorter-term fixed income instruments as interest rates change. These risks may be greater in the current market environment of historically low interest rates. The obligor of a fixed income instrument may not be able or willing to pay interest or to repay principal when due in accordance with the terms of the associated agreement. An obligor's willingness and ability to pay interest or to repay principal due in a timely manner may be affected by, among other factors, its cash flow. Commercial bank lenders may be able to contest payments to the holders of other debt obligations of the same obligor in the event of default under their commercial bank loan agreements. See also "Risks Factors—Credit Risk."

The Fund invests in loans and other similar forms of debt. Such forms of indebtedness are different from traditional debt securities in that debt securities are part of a large issue of securities to the public and loans and similar debt instruments may not be securities, but may represent a specific commercial loan to a borrower. Loan participations typically represent direct participation, together with other parties, in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. Participation interests will only give the Fund the right to receive payments of principal and interest from the institution participating out the loan, and not directly from the obligor, and will typically give the Fund limited consent rights to amendments of the underlying credit documents. The Fund may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing indebtedness and loan participations, the Fund assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. Members of a syndicate in which the Fund participates may have different and sometimes superior rights to those of the Fund. Where the Fund invests as a sub-participant in syndicated debt, it may be subject to certain risks as a result of having no direct contractual relationship with the underlying borrower. As a result, the Fund will generally be dependent on the lender to enforce its rights and obligations under the loan arrangements in the event of a default by the underlying borrower and will generally not have any direct rights against the underlying borrower, any direct rights in the collateral, if any, securing such borrowing, or any right to deal directly with such borrower. The lender will, in general, retain the

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right to determine whether remedies provided for in the underlying loan arrangement will be exercised, or waived. In the event that the Fund enters into such an investment, there can be no assurance that its ability to realize upon a participation will not be interrupted or impaired in the event of the bankruptcy or insolvency of any of the borrower or the lender or that in such circumstances, the Fund will benefit from any set-off between the lender and the borrower. Successful claims by third parties arising from these and other risks may be borne by the Fund.

The Fund may invest in debtor-in-possession financings. In such investments there is a risk that the underlying borrower may not successfully come out of Chapter 11 proceedings and may be forced to liquidate its assets in which case the Fund's only recourse will be against the security provided by the borrower (which may not be sufficient to cover related losses).

Interest Rate Risk. As with most funds that invest in debt securities, changes in interest rates are one of the most important factors that could affect the value of an investment in the Fund. Interest rate risk is the risk that debt securities will decline in value because of increases in interest rates. Rising interest rates tend to cause the prices of debt securities (especially those with longer maturities) and the Fund's share price to fall. Generally, bonds with longer maturities have a greater duration and thus are subject to greater price volatility from changes in interest rates. Adjustable-rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other things). Low interest rates may pose heightened risks with respect to investments in fixed income securities. If interest rates were to rise from a low level, fixed income securities markets may experience lower prices, increased volatility and lower liquidity. The negative impact on fixed income securities from rate increases, regardless of the cause, could be swift and significant, which could result in significant losses by the Fund, even if such rate increases are anticipated by the portfolio managers.

Market Risk. The market price of investments owned by the Fund may go up or down, sometimes rapidly or unpredictably. Fund investments may decline in value due to factors affecting the overall markets, or particular industries or sectors. The value of a holding may decline due to general market conditions that are not specifically related to a particular issuer, such as real or perceived economic conditions, changes in the general outlook for an issuer's financial condition, national or international political events, market disruptions, public health emergencies, such as the spread of infectious illness or disease, natural disasters, changes in interest or currency rates, domestic or international monetary policy or adverse investor sentiment generally. The value of a holding may also decline due to factors that affect a particular industry or industries, such as competitive conditions within an industry or government regulations. In addition, the Fund may rely on various third-party sources to calculate its net asset value. Errors or systems failures and other technological issues may adversely impact the Fund's calculation of its net asset value, and such net asset value calculation issues may result in inaccurately calculated net asset values, delays in net asset value calculation and/or the inability to calculate net asset values over extended periods. The Fund may be unable to recover any losses associated with such failures.

In addition, issuers of securities in which the Fund invests are subject to potential operational and information security risks from breaches in cyber security, including cyber-attacks. A breach in cyber security refers to both intentional and unintentional cyber events and may include, among other events, the stealing or corrupting of data maintained online or digitally, denial of service attacks on websites, the unauthorized release or misuse of confidential information or various other forms of cyber security breaches. Such cyber events could result in material adverse consequences for such issuers, and may cause the Fund's investment in such portfolio companies to lose value.

Many countries have experienced outbreaks of infectious illnesses in recent decades, including swine flu, avian influenza, SARS and, more recently, COVID-19. The global outbreak of COVID-19 in early 2020 has resulted in various disruptions, including travel and border restrictions, quarantines, supply chain disruptions, labor restrictions, lower consumer demand and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, financial markets and the economies of certain nations and individual issuers, any of which may negatively impact the Fund and its holdings. Similar consequences could arise as a result of the spread of other infectious diseases.

Management Risk. The Fund is subject to management risk as an actively managed investment portfolio. The portfolio managers will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. The portfolio managers' opinion about the intrinsic worth or creditworthiness of a company or security may be incorrect, the portfolio managers may not make timely purchases or sales of securities for the Fund, the Fund's investment objective may not be achieved, or the market may continue to undervalue the Fund's securities. In addition, the Fund may not be able to quickly dispose of certain securities holdings. The frequency of trading within the Fund impacts portfolio turnover rates, which are shown in the financial highlights table. A higher rate of portfolio turnover could produce higher trading costs and taxable

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distributions, which would detract from the Fund's performance. Moreover, there can be no assurance that all of the Adviser's personnel will continue to be associated with the Adviser for any length of time. The loss of services of one or more key employees of the Adviser, including the portfolio managers, could have an adverse impact on the Fund's ability to achieve its investment objective. Certain securities or other instruments in which the Fund seeks to invest may not be available in the quantities desired. In such circumstances, the portfolio managers may determine to purchase other securities or instruments as substitutes. Such substitute securities or instruments may not perform as intended, which could result in losses to the Fund. In addition, the Fund and its service providers are subject to potential operational and information security risks from breaches in cyber security. A breach in cyber security refers to both intentional and unintentional cyber events and may include, among other events, the stealing or corrupting of data maintained online or digitally, denial of service attacks on websites, the unauthorized release or misuse of confidential information or various other forms of cyber-attacks. Cyber-security breaches affecting the Fund or the Adviser, custodian, transfer agent, intermediaries, trading counterparties or other third-party service providers may adversely impact the Fund. For instance, cyber security breaches may interfere with the processing of shareholder transactions, impact the Fund's ability to calculate its net asset value, cause the release of private shareholder information or confidential (including proprietary) company information, impede trading, result in violations of applicable privacy and other laws, subject the Fund to regulatory fines, cause the Fund and its shareholders to experience financial losses, or cause reputational damage and/or otherwise disrupt normal business operations. The Fund may also incur additional costs for cyber security risk management purposes. The Fund has established business continuity plans and risk management systems reasonably designed to seek to reduce the risks associated with cyber-attacks, but there are inherent limitations in these plans and systems. For example, the nature of malicious cyber-attacks is becoming increasingly sophisticated; the Fund cannot control the cyber-security systems of issuers or third-party service providers; and certain current risks may not have been identified and additional unknown threats may emerge in the future. There is also a risk that cyber security breaches may not be detected. The Fund and its shareholders could be negatively impacted as a result.

Credit Risk. Credit risk refers to the likelihood that an issuer will default on the payment of principal and/or interest on a security. Various factors could affect the issuer's actual or perceived willingness or ability to make timely interest or principal payments, including changes in the issuer's financial condition or in general economic conditions. In addition, lack of or inadequacy of collateral or credit enhancements for a fixed income security may affect its credit risk. Below investment grade securities predominantly have more risk with respect to the issuer's ability to pay interest and repay principal when due, and therefore involve a greater risk of default or nonpayment. Credit risk of a security may change over time, and securities which are rated by ratings agencies are often reviewed and may be subject to downgrade. However, ratings are only opinions of the agencies issuing them and are not absolute guarantees as to quality.

Call Risk. Issuers of callable bonds are permitted to redeem these bonds before their final maturity. Issuers may call outstanding securities before maturity for a number of reasons, including decreases in prevailing interest rates or improvements to the issuer's credit profile. If an issuer calls a security in which the Fund is invested, the Fund could lose potential price appreciation and be forced to reinvest the proceeds in securities that bear a lower interest rate or more credit risk.

Risks Associated with Investing in Smaller-Cap and Mid-Cap Companies. The prices of securities of smaller-cap and mid-cap companies tend to fluctuate more widely than those of larger, more established companies. Smaller-cap and mid-cap companies may have limited product lines, markets or financial resources or may depend on the expertise of a few people and may be subject to more abrupt or erratic market movements than securities of larger, more established companies or market averages in general. In addition, these companies often have shorter operating histories and are more reliant on key products or personnel than larger companies. The securities of smaller- or medium-sized companies are often traded over-the-counter, and may not be traded in volumes typical of securities traded on a national securities exchange. Securities of such issuers may lack sufficient market liquidity to effect sales at an advantageous time or without a substantial drop in price.

Risks Associated with Investing in Non-U.S. Securities. Non-U.S. investments involve special risks not present in U.S. investments that can increase the chances that the Fund will lose money. Certain of the risks noted below may also apply to securities of U.S. issuers with significant non-U.S. operations. Investments in non-U.S. securities involve the following risks:

- the economies of some non-U.S. markets often do not compare favorably with that of the U.S. in areas such as growth of gross domestic product, reinvestment of capital, resources, and balance of payments. Some of these economies may rely heavily on particular industries or non-U.S. capital. They may be more vulnerable to adverse diplomatic developments, the imposition of economic sanctions against a country, changes in inter-national trading patterns, trade barriers and other protectionist or retaliatory measures;

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- governmental actions such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets or the imposition of punitive taxes—may adversely affect investments in non-U.S. markets. Such governments may also participate to a significant degree, through ownership or regulation, in their respective economies;
- the governments of certain countries may prohibit or substantially restrict foreign investing in their capital markets or in certain industries. This could severely affect security prices. This could also impair the Fund's ability to purchase or sell non-U.S. securities or transfer its assets or income back to the U.S. or otherwise adversely affect the Fund's operations;
- other non-U.S. market risks include foreign exchange controls, difficulties in pricing securities, defaults on non-U.S. government securities, difficulties in enforcing favorable legal judgments in non-U.S. courts, and political and social instability. Legal remedies available to investors in some non-U.S. countries are less extensive than those available to investors in the U.S. Many non-U.S. governments supervise and regulate stock exchanges, brokers and the sale of securities to a lesser extent than the U.S. government does. Corporate governance may not be as robust as in more developed countries. As a result, protections for minority investors may not be strong, which could adversely affect the Fund's non-U.S. holdings or exposures;
- accounting standards in other countries are not necessarily the same as in the U.S. If the accounting standards in another country do not require as much disclosure or detail as U.S. accounting standards, it may be harder for the portfolio managers to completely and accurately determine a company's financial condition or otherwise assess a company's creditworthiness;
- because there may be fewer investors on non-U.S. exchanges and smaller numbers of shares traded each day, it may be difficult for the Fund to buy and sell securities on those exchanges. In addition, prices of non-U.S. securities may be more volatile than prices of securities traded in the U.S.;
- non-U.S. markets may have different clearance and settlement procedures. In certain markets, settlements may not keep pace with the volume of securities transactions. If this occurs, settlement may be delayed, and the Fund's assets may be uninvested and may not be earning returns. The Fund also may miss investment opportunities or not be able to sell an investment or reduce its exposure because of these delays;
- changes in currency exchange rates will affect the value of the Fund's non-U.S. holdings or exposures;
- the costs of non-U.S. securities transactions tend to be higher than those of U.S. transactions, increasing the transaction costs paid directly or indirectly by the Fund;
- international trade barriers or economic sanctions against non-U.S. countries may adversely affect the Fund's non-U.S. holdings or exposures; and
- global economies are increasingly interconnected, which increases the possibilities that conditions in one country region or financial market may adversely impact a different country, region or financial market.

The severity or duration of these conditions may be affected if one or more countries leave the European Union, the euro currency or if other policy changes are made by governments or quasigovernmental organizations.

The Fund may invest in depositary receipts, including American Depositary Receipts ("ADRs"), European Depositary Receipts ("EDRs"), Global Depositary Receipts ("GDRs") and Global Depositary Notes ("GDNs"), which are certificates evidencing ownership of securities of a non-U.S. issuer. Depositary receipts may be sponsored by the non-U.S. issuer or unsponsored. Depositary receipts are subject to the risks of changes in currency or exchange rates and the risks of investing in non-U.S. securities that they evidence or into which they may be converted. The issuers of unsponsored depositary receipts are not obligated to disclose information that would be considered material in the U.S., or to pass through to shareholders any voting rights with respect to the deposited securities. Therefore, there may be less information available regarding these issuers, and there may not be a correlation between such information and the market value of the depositary receipts.

Risks Associated with Investing in Emerging Market. In investing the Fund's assets, the portfolio managers focus on countries with established rules of law and political systems that allow for transparent and unbiased enforcement of those laws, although there can be no assurance that the Fund's assets will in all cases be invested in countries that offer such protections, and such investments may be subject to heightened risk. The Fund's investments in non-U.S. issuers in developing or emerging market countries may involve

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increased exposure to changes in economic, social and political factors as compared to investments in more developed countries. The economies of most emerging market countries are in the early stage of capital market development and may be dependent on relatively fewer industries. As a result, their economic systems are still evolving. Their legal and political systems may also be less stable than those in developed economies. Securities markets in these countries can also be smaller, and there may be increased settlement risks. Emerging market countries often suffer from currency devaluation and higher rates of inflation. Due to these risks, securities issued in developing or emerging countries may be more volatile, less liquid, and harder to value than securities issued in more developed countries.

Risks Associated with Value Investing. Value stocks, including those selected by the portfolio managers for the Fund, are subject to the risks that their intrinsic value may never be realized by the market and that their prices may go down. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods. The Fund's value discipline may result in a portfolio of stocks that differs materially from its benchmark index. Securities selected by the portfolio managers using a value strategy may never reach their intrinsic value because the market fails to recognize what the portfolio managers consider to be the true business value or because the portfolio managers have misjudged those values. There may be periods during which the investment performance of the Fund suffers while using a value strategy.

Liquidity Risk. The Fund's investments in illiquid securities may reduce the returns of the Fund because it may not be able to sell the illiquid securities at an advantageous time or price. Investments in high yield securities, non-U.S. securities, derivatives or other securities with substantial market and/or credit risk tend to have the greatest exposure to liquidity risk. Certain investments in private placements and Rule 144A securities may be considered illiquid investments. Lower-rated debt securities tend to be less liquid than higher-rated securities. Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wider fluctuations in market value. Furthermore, reduced number and capacity of dealers and other counterparties to "make markets" in fixed income securities, in connection with the growth of the fixed income markets, may increase liquidity risk with respect to the Fund's investments in fixed income securities. When there is no willing buyer and investments cannot be readily sold, the Fund may have to lower the selling price, sell other investments, or may not be able to sell the securities at all and may have to forego another, more appealing investment opportunity, any of which could have a negative effect on the Fund's performance. These securities may also be difficult to value and their values may be more volatile because of liquidity risk. Regulatory changes may further constrain the ability of market participants to create liquidity, particularly in times of increased market volatility. Liquidity risk may intensify during periods of economic uncertainty.

Over-the-Counter Risk. Securities traded in OTC markets may trade in smaller volumes, and their prices may be more volatile, than securities principally traded on securities exchanges. Such securities may be less liquid than more widely traded securities. In addition, the prices of such securities may include an undisclosed dealer markup, which the Fund pays as part of the purchase price.

Private Placements and Restricted Securities Risk. Private placement securities are securities that are not registered under the federal securities laws, and are generally eligible for sale only to certain eligible investors. The Fund may invest in securities that are purchased in private placements. Because there may be relatively few potential purchasers for such investments, especially under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer, the Fund could find it more difficult to sell such securities when the Adviser believes it advisable to do so or may be able to sell such securities only at prices lower than if such securities were more widely held. At times, it may also be more difficult to determine the fair value of such securities for purposes of computing the NAV of the Fund. The sale of such investments may also be restricted under securities laws.

Private Fund Risk. The Fund invests in external private funds managed by independent external managers. These private funds are generally exempt from registration under the 1940 Act, and, therefore, will not be required to adhere to the restrictions and requirements under the 1940 Act. Accordingly, the provisions of the 1940 Act (which, among other things, require investment companies to have a majority of disinterested directors, require securities to be held in custody by a bank or broker in accordance with rules requiring the segregation of securities, prohibit the investment companies from engaging in certain transactions with its affiliates and regulate the relationship between advisers and investment companies) are not applicable to such private funds. Shares of private funds are not publicly traded and generally are not liquid investments. Additional risks associated with investing in private funds include, among other things, that private funds may incur leverage for investment or other purposes, which may increase the volatility of investments in private funds; private funds generally may invest without limitation in restricted and illiquid investments; the Fund relies primarily on information provided by external managers of the private funds in valuing its investments in private funds; the external managers of the private funds often have broad indemnification rights from the private fund and limitations on liability; neither the Fund nor the Adviser controls the external managers of these private funds; and there can be no assurances that an external manager will manage its private funds in a manner consistent with either the Fund's investment objectives and strategies or with the

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stated investment policies and restrictions of the private fund. These characteristics present additional risks, including the possibility of risk of total loss, for shareholders of private funds.

Leverage Risk. The Fund is permitted to obtain leverage, under limited circumstances, using any form or combination of financial leverage instruments, including through funds borrowed from banks or other financial institutions (i.e., a credit facility), margin facilities, the issuance of Preferred Stock or notes and leverage attributable to reverse repurchase agreements, dollar rolls or similar transactions. The Fund may use leverage opportunistically and may choose to increase or decrease its leverage, or use different types or combinations of leveraging instruments, at any time based on the Fund's assessment of market conditions and the investment environment.

The 1940 Act generally limits the extent to which the Fund may utilize borrowings and "uncovered" transactions that may give rise to a form of leverage, including reverse repurchase agreements, dollar rolls, swaps, futures and forward contracts, options and other derivative transactions, together with any other senior securities representing indebtedness, to 33 $\frac{1}{3}$ %, of the Fund's total net assets at the time utilized. In addition, the 1940 Act limits the extent to which the Fund may issue Preferred Stock to 50% of the Fund's total net assets (less the Fund's obligations under senior securities representing indebtedness). "Covered" reverse repurchase agreements, dollar rolls, swaps, futures and forward contracts, options and other derivative transactions will not be counted against the foregoing limits under the 1940 Act. The Fund will "cover" its derivative positions by segregating an amount of cash and/or liquid securities as required by the 1940 Act and applicable SEC interpretations and guidance from time to time. Alternatively, the Fund may enter into an offsetting position or own positions covering its obligations with respect to the transaction; otherwise, this transaction will be considered "uncovered." The Fund may not cover an applicable derivative transaction if it does not need to do so to comply with the foregoing 1940 Act requirements and, in the view of the Adviser, the assets that would have been used to cover could be better used for a different purpose. However, these transactions, even if covered, may represent a form of economic leverage and will create risks. The potential loss on derivative instruments may be substantial relative to the initial investment therein. In addition, these segregation and coverage requirements could result in the Fund maintaining securities positions that it would otherwise liquidate, segregating assets at a time when it might be disadvantageous to do so or otherwise restricting portfolio management. Such segregation and cover requirements will not limit or offset losses on related positions.

Use of leverage creates an opportunity for increased income and return for Common Shareholders but, at the same time, creates risks, including the likelihood of greater volatility in the NAV and market price of, and distributions on, the Common Shares. Increases and decreases in the value of the Fund's portfolio will be magnified if the Fund uses leverage. In particular, leverage may magnify interest rate risk, which is the risk that the prices of portfolio securities will fall (or rise) if market interest rates for those types of securities rise (or fall). As a result, leverage may cause greater changes in the Fund's NAV, which will be borne entirely by the Fund's Common Shareholders. There can be no assurance that the Fund will use leverage or that its leveraging strategy will be successful during any period in which it is employed. The Fund may be subject to investment restrictions of one or more NRSROs and/or credit facility lenders as a result of its use of financial leverage. These restrictions may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these covenants or portfolio requirements will significantly impede the Adviser in managing the Fund's portfolio in accordance with its investment objective and policies. Nonetheless, if these covenants or guidelines are more restrictive than those imposed by the 1940 Act, the Fund may not be able to utilize as much leverage as it otherwise could have, which could reduce the Fund's investment returns. In addition, the Fund expects that any notes it issues or credit facility it enters into would contain covenants that, among other things, will likely impose geographic exposure limitations, credit quality minimums, liquidity minimums, concentration limitations and currency hedging requirements on the Fund. These covenants would also likely limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change fundamental investment policies and engage in certain transactions, including mergers and consolidations. Such restrictions could cause the Adviser to make different investment decisions than if there were no such restrictions and could limit the ability of the Board and Common Shareholders to change fundamental investment policies.

The costs of a financial leverage program (including the costs of offering any Preferred Stock and notes) will be borne entirely by Common Shareholders and consequently will result in a reduction of the NAV of the Common Shares. During periods in which the Fund is using leverage, the fees paid by the Fund for investment advisory services will be higher than if the Fund did not use leverage because the investment advisory fees paid will be calculated on the basis of the Fund's total net assets, which includes proceeds from (and assets subject to) any credit facility, margin facility, any issuance of Preferred Stock or notes, any reverse repurchase agreements, dollar rolls or similar transactions. This will create a conflict of interest between the Adviser, on the one hand, and Common Shareholders, on the other hand. To monitor this potential conflict, the Board intends to periodically review the Fund's use of leverage, including its impact on Fund performance and on the Adviser's fees.

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The Fund may also offset derivative positions against one another or against other assets to manage the effective market exposure resulting from derivatives in its portfolio. In addition, to the extent that any offsetting positions do not behave in relation to one another as expected, the Fund may perform as if it were leveraged. The Fund's use of leverage could create the opportunity for a higher return for Common Shareholders but would also result in special risks for Common Shareholders and can magnify the effect of any losses. If the income and gains earned on the securities and investments purchased with leverage proceeds are greater than the cost of the leverage, the return on the Common Shares will be greater than if leverage had not been used. Conversely, if the income and gains from the securities and investments purchased with such proceeds do not cover the cost of leverage, the return on the Common Shares will be less than if leverage had not been used. There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for Common Shareholders, including:

- the likelihood of greater volatility of NAV and market price of the Common Shares than a comparable portfolio without leverage;
- the risk that fluctuations in interest rates on borrowings and short-term debt or in the dividend rates on any Preferred Stock that the Fund may pay will reduce the return to the Common Shareholders or will result in fluctuations in the dividends paid on the Common Shares;
- the effect of leverage in a declining market, which is likely to cause a greater decline in the NAV of the Common Shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Common Shares; and
- when the Fund uses certain types of leverage, the investment advisory fee payable to the Adviser will be higher than if the Fund did not use leverage.

Risks Associated with Investing in High Yield Securities. High yield bonds, which are sometimes called “junk” bonds, are highly speculative securities that are usually issued by smaller, less creditworthy and/or highly leveraged (indebted) companies. Because investment in lower-rated or unrated securities involves greater investment risk, achievement of the Fund's investment objective is more dependent on the portfolio managers' credit analysis than with respect to the Fund's investments in higher-rated securities. The portfolio managers do not employ a rating valuation for unrated securities. Decisions to purchase and sell these securities are based on the portfolio manager's evaluation of their investment potential and not on the ratings assigned by credit agencies. Compared with investment-grade bonds, high yield bonds carry a greater degree of risk and are less likely to make payments of interest and principal. Compared to investment-grade debt securities, market developments and the financial and business conditions of the corporation issuing high yield securities influence high yield securities price and liquidity more than changes in interest rates when compared to investment grade debt securities. Lower-rated securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than investment grade securities. A projection of an economic downturn, for example, could cause a decline in the prices of lower-rated securities because the advent of a recession could lessen the ability of a highly leveraged company to make principal and interest payments on its debt securities. New laws and proposed new laws could negatively impact the market for high yield bonds. Insufficient liquidity in the high yield bond market may make it more difficult to dispose of high yield bonds and may cause the Fund to experience sudden and substantial price declines. A lack of reliable, objective data or market quotations may make it more difficult to value high yield bonds accurately. There is no limit on the ratings of high yield securities that may be purchased or held by the Fund, and the Fund may invest in securities that are in default.

Valuation Risk. Unlike publicly traded common stock which trades on national exchanges, there is no central place or exchange for loans or fixed income instruments to trade. Loans and fixed income instruments generally trade on an OTC market, which may be anywhere in the world where the buyer and seller can settle on a price. Due to the lack of centralized information and trading, the valuation of loans or fixed income instruments may carry more risk than that of common stock. Uncertainties in the conditions of the financial market, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate asset pricing. In addition, other market participants may value securities differently than the Fund. As a result, the Fund may be subject to the risk that when a loan or fixed income instrument is sold in the market, the amount received by the Fund is less than the value of such loans or fixed income instruments carried on the Fund's books.

U.S. Government Securities Risk. Certain U.S. government securities are supported by the full faith and credit of the United States; others are supported by the right of the issuer to borrow from the U.S. Treasury; others are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others are supported only by the credit of the issuing agency, instrumentality, or enterprise. Although U.S. government-sponsored enterprises such as the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) may be chartered or sponsored by Congress, they are not funded by Congressional appropriations, and their securities are not issued by the U.S. Treasury, are not supported by the

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full faith and credit of the U.S. government, and involve increased credit risks in comparison to U.S. Treasury securities or other securities supported by the full faith and credit of the U.S. government. Any security guaranteed by the U.S. government or its agencies or instrumentalities, or a security backed by the U.S. Treasury or the full faith and credit of the United States, is guaranteed or backed only as to the timely payment of interest and principal when held to maturity, but the market values for such securities are not guaranteed and will fluctuate.

Any market movements, regulatory changes or changes in political or economic conditions that affect the U.S. government agencies or instrumentalities in which the Fund invests may have a significant impact on the Fund's performance. Events that would adversely affect the market prices of securities issued or guaranteed by one government agency or instrumentality may adversely affect the market price of securities issued or guaranteed by other government agencies or instrumentalities. Because many types of U.S. government securities trade actively outside the United States, their prices may rise and fall as changes in global economic conditions affect the demand for these securities.

Mortgage-Related and Asset-Backed Risk. Mortgage-related and other asset-backed securities represent interests in "pools" of mortgages or other assets such as consumer loans or receivables held in trust and often involve risks that are different from or possibly more acute than risks associated with other types of debt instruments. Mortgage-related securities are subject to prepayment risk and, thus, can be highly sensitive to changes in interest rates. Generally, in a period of rising interest rates, individual borrowers are less likely to exercise prepayment options which tend to extend the expected maturity of mortgage-related securities, making them more sensitive to changes in interest rates. As a result, if the Fund holds mortgage-related securities, rising interest rates may cause the Fund to exhibit additional volatility due to the increased expected average life of its mortgage-related holdings. When interest rates decline, borrowers may pay their mortgages sooner than expected. These pre-payments can reduce the returns of the Fund because the Fund may realize losses on securities that were acquired at a premium to par and the Fund may have to reinvest the proceeds from prepayments at the lower prevailing interest rates which can reduce the Fund's yield.

Mortgage-related securities may be either pass-through securities or CMOs. Pass-through securities represent a right to receive principal and interest payments collected on a pool of mortgages which are passed through to security holders. CMOs are created by dividing the principal and interest payments collected on a pool of mortgages into several cash flow streams ("tranches") with different priority rights to portions of the underlying mortgage payments. Certain CMO tranches may represent a right to receive specific sources of cash flow such as interest-only ("IOs") or principal-only ("POs"). These securities are frequently referred to as "stripped securities" and may be extremely sensitive to changes in interest rates. Stripped securities can produce higher yields than more traditional securities. However, stripped mortgage securities are highly sensitive to changes in interest and prepayment rates. As a result, such securities are extremely volatile. For example, generally, the value of principal-only stripped mortgage-related securities fall as interest rates rise, whereas the value of interest-only stripped mortgage-related securities rise as interest rates rise, and vice versa. If the Fund invests in CMO tranches (including CMO tranches issued by government agencies) and interest rates move in a manner not anticipated by the managers, it is possible that the Fund could lose all or substantially all of its investment. The market prices of CMOs structured as accrual certificates (also known as "Z-Bonds") are affected to a greater extent by interest rate changes and therefore tend to be more volatile than securities which pay current interest in cash. Mortgage-related securities, and in particular those not backed by a government guarantee, are subject to credit risk.

The Fund's investments in other asset-backed securities are subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets. Payment of principal and interest on asset-backed securities may be largely dependent upon the cash flows generated by the assets backing the securities, and asset-backed securities may not have the benefit of any security interest in the related assets. Certain asset-backed securities, including securities backed by auto loans, are subject to subprime lending and loan-to-value risk. One of the most significant risks to a holder of an auto loan asset-backed security is the fluctuation of the value of the loans acquired. The higher the loan-to-value ratio, the riskier the loan is for a lender. Further, subprime loans underlying auto loan asset-backed securities may have higher default rates than loans that meet more stringent underwriting requirements.

Adjustable-Rate Mortgage ("ARM") Risk. During periods of extreme fluctuations in interest rates, the resulting fluctuations of ARM rates could affect the ARMs' market value. Most ARMs generally have annual reset limits or "caps". Fluctuations in interest rates above these levels, thus, could cause the mortgage-backed securities to "cap out" and to behave more like long-term, fixed-rate debt securities. During periods of declining interest rates, of course, the coupon rates may readjust downward and result in lower yields. Because of this feature, the value of ARMs will likely not rise during periods of declining interest rates to the same extent as fixed-rate instruments.

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Stripped Securities Risk. Stripped securities are more volatile than securities where the principal and interest payments have not been separated. The value of stripped securities generally fluctuates more in response to interest rate movements than the value of traditional bonds because a change in interest rates may increase or decrease prepayments of principal. While the U.S. government or its agencies or instrumentalities may guarantee the full repayment of principal on stripped securities they issue, repayment of interest is generally guaranteed only while the underlying assets or pools of assets are outstanding. The market for stripped securities may be limited, which may make it difficult for the Fund to dispose of them quickly at an acceptable price.

Sovereign and Government-Related Debt. Sovereign debt includes securities issued or guaranteed by a non-U.S. sovereign government or its agencies, authorities, or political sub-divisions. Government-related debt includes securities issued by non-U.S. regional or local governmental entities or government-controlled entities. In the event an issuer of sovereign debt or government-related debt is unable or unwilling to make scheduled payments of interest or principal, holders may be asked to participate in a restructuring of the debt and to extend further credit to the issuer. In the event of a default by a governmental entity on a sovereign debt obligation, there may be few or no effective legal remedies for collecting on such debt.

Risks Associated with Investing in Convertible Securities. A convertible security is a bond, debenture, or note that may be exchanged for particular common stocks in the future at a predetermined price or formula within a specified period of time. A convertible security entitles the holder to receive interest paid or accrued on the debt security until the convertible security matures or is redeemed. Prior to redemption, convertible securities provide benefits similar to nonconvertible debt securities in that they generally provide income with higher yields than those of similar common stocks. Convertible securities may entail less risk than the corporation's common stocks. Convertible securities are generally not investment grade. The risks of nonpayment of the principal and interest increase when debt securities are rated lower than investment grade or are not rated.

Risks Associated with Deep Discount Securities. The high yield securities in which the Fund may invest may from time to time include debt securities of companies that are financially troubled, in default or are in bankruptcy or reorganization. These securities are called "Deep Discount Securities" and are deeply discounted from their face value. The Fund will invest in Deep Discount Securities when the portfolio managers believe that the issuer's financial condition is likely to improve. A debt instrument purchased at a deep discount, but prior to default, may pay a very high effective yield. If the issuer's financial condition improves, the underlying value of the securities may increase and result in a capital gain. If the issuer cannot meet its debt obligations, however, the Deep Discount Securities may stop generating income and lose its value or become worthless. The portfolio managers will balance the benefits of Deep Discount Securities with their risks. A diversified portfolio may reduce the overall impact of a Deep Discount Security in default or reduced in value, but the risk cannot be eliminated. A lack of reliable, objective data or market quotations may make it more difficult to value deep discount securities accurately. Insufficient liquidity in the deep discount security market may make it more difficult to dispose of such securities and may cause the Fund to experience sudden and substantial price declines.

Risks Associated with Investing in Repurchase Agreements. A repurchase agreement is a short-term investment. The Fund acquires a debt security that the seller agrees to repurchase at a future time and set price. If the seller declares bankruptcy or defaults, the Fund may incur delays and expenses liquidating the security. The security may also decline in value or fail to provide income.

Risks Associated with Short Selling. The Fund can lose money if the price of the security it sold short increases between the date of the short sale and the date on which the Fund replaces the borrowed security. These losses are theoretically unlimited. To borrow the security, the Fund also may be required to pay a premium, which would increase the cost of the security sold. The Fund will incur transaction costs in effecting short sales. The Fund's gains and losses will be decreased or increased, as the case may be, by the amount of the premium, dividends, interest, or expenses the Fund may be required to pay in connection with a short sale.

Derivatives Risk. The Fund may invest in derivatives, a category of investments that includes forward non-U.S. currency exchange contracts, futures, options and swaps to protect its investments against changes resulting from market conditions or currency changes (a practice called "hedging"), to reduce transaction costs or to manage cash flows. Forward non-U.S. currency exchange contracts, futures and options are called derivatives because their value is derived from an underlying asset or economic factor. Derivatives are often more volatile than other investments and may magnify the Fund's gains or losses. There are various factors that affect the Fund's ability to achieve its objectives with derivatives. Successful use of a derivative depends on the degree to which prices of the underlying assets correlate with price movements in the derivatives the Fund buys or sells. The Fund could be negatively affected if the change in market value of its securities fails to correlate perfectly with the values of the derivatives it purchased or sold. In addition, derivatives can be volatile and involve significant risks, including counterparty risk (the risk that the other party to a contract defaults or refuses to honor the obligation), leverage risk (the risk that some derivatives entail embedded leverage magnifying losses) and liquidity risk (the risk that the derivative will be difficult to sell or close out at a favorable time or price). Changes in regulations relating to a mutual

SOURCE CAPITAL, INC.

ADDITIONAL INFORMATION REGARDING THE FUND

(Unaudited) (Continued)

fund's use of derivatives and related instruments could potentially limit or impact the Fund's ability to invest in derivatives and adversely affect the value or performance of derivatives and the Fund.

Market Discount Risk. Common shares of closed-end investment companies like the Fund frequently trade at a discount from their NAV. Common shares of closed-end investment companies like the Fund have traded at prices higher than their NAV during some periods and have traded at prices lower than their NAV during other periods. The Fund cannot assure you that its Common Shares will trade at a price higher than or equal to NAV in the future. In addition to NAV, the market price of the Fund's Common Shares may be affected by such factors as distribution levels and stability (which are in turn affected by expenses, regulation affecting the timing and character of Fund distributions and other factors), portfolio credit quality, liquidity, market supply and demand and similar other factors relating to the Fund's portfolio holdings. The Fund's market price may also be affected by general market, economic or political conditions. The Common Shares are designed primarily for long-term investors and should not be viewed as a vehicle for trading purposes. You should not purchase Common Shares of the Fund if you intend to sell them shortly after purchase.

Regulatory Risk—Regulation as a Commodity Pool. The Adviser has claimed an exclusion from the definition of the term "commodity pool operator" with respect to the Fund pursuant to Regulation 4.5 promulgated by the CFTC under the Commodity Exchange Act (the "CEA"). The CFTC has adopted amendments to its rules that may affect the ability of the Adviser to claim this exclusion. The ongoing compliance implications of these amendments are not fully effective and their scope of application is still uncertain. The Adviser will be limited in its ability to use futures or options on futures or engage in swaps transactions on behalf of the Fund as a result of claiming the exclusion. In the event the Adviser fails to qualify for the exclusion and is required to register as a "commodity pool operator," the Adviser will become subject to additional disclosure, recordkeeping and reporting requirements with respect to the Fund, which may increase the Fund's expenses.

Risks related to the Fund's Clearing Broker and Central Clearing Counterparty. The CEA and CFTC regulations require swaps and futures clearing brokers registered as "futures commission merchants" to segregate from the broker's proprietary assets all funds and other property received from customers with respect to any orders for the purchase or sale of U.S. domestic futures contracts, options on futures contracts and cleared swaps. Similarly, the CEA requires each futures commission merchant to hold in a separate secure account all funds and other property received from customers with respect to any orders for the purchase or sale of foreign futures contracts and segregate any such funds from the funds received with respect to domestic futures contracts. However, all funds and other property received by a clearing broker from its customers are held by the clearing broker on a commingled basis in an omnibus account and may be accessed by the clearing broker, which may also invest any such funds in certain instruments permitted under the applicable regulation. There is a risk that assets deposited by the Fund with any swaps or futures clearing broker as margin for futures contracts or cleared swaps may, in certain circumstances, be used to satisfy losses of other clients of the Fund's clearing broker. In addition, the assets of the Fund might not be fully protected in the event of the Fund's clearing broker's bankruptcy, as the Fund would be limited to recovering only a pro rata share of all available funds segregated on behalf of the clearing broker's combined domestic customer accounts.

Similarly, the CEA and CFTC regulations require a clearing organization approved by the CFTC as a derivatives clearing organization to segregate all funds and other property received from a clearing member's customers in connection with domestic futures, swaps and options contracts from any funds or other property held at the clearing organization to support the clearing member's proprietary trading. Nevertheless, with respect to futures and options contracts, a clearing organization may use assets of a non-defaulting customer held in an omnibus account at the clearing organization to satisfy payment obligations of a defaulting customer of the clearing member to the clearing organization. As a result, in the event of a default of the clearing broker's other clients or the clearing broker's failure to extend its own funds in connection with any such default, the Fund may not be able to recover the full amount of assets deposited by the clearing broker on behalf of the Fund with the clearing organization.

Anti-Takeover Provisions Risk. Certain provisions of the Fund's Certificate of Incorporation, as amended ("Certificate of Incorporation") may be regarded as "anti-takeover" provisions. These provisions require the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of the Fund for a merger or consolidation of the Fund with an open-end investment company, a merger or consolidation of the Fund with a closed-end investment company with different voting requirements, dissolution of the Fund, a sale of all or substantially all of the assets of the Fund or an amendment to the Fund's Certificate of Incorporation making the common stock a redeemable security or reducing the two-thirds vote required by the Certificate of Incorporation.

Risks Relating to Fund's RIC Status. To qualify and remain eligible for the special tax treatment accorded to RICs and their shareholders under the Code, the Fund must meet certain source-of-income, asset diversification and annual distribution requirements. Very generally, in order to qualify as a RIC, the Fund must derive at least 90% of its gross income for each taxable year from dividends,

SOURCE CAPITAL, INC.

ADDITIONAL INFORMATION REGARDING THE FUND

(Unaudited) (Continued)

interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income derived with respect to its business of investing in stock or other securities and currencies. The Fund must also meet certain asset diversification requirements at the end of each quarter of each of its taxable years. Failure to meet these diversification requirements on the last day of a quarter may result in the Fund having to dispose of certain investments quickly in order to prevent the loss of RIC status. Any such dispositions could be made at disadvantageous prices or times, and may result in substantial losses to the Fund. In addition, in order to be eligible for the special tax treatment accorded RICs, the Fund must meet the annual distribution requirement, requiring it to distribute with respect to each taxable year at least 90% of the sum of its “investment company taxable income” (generally its taxable ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any) and its net tax-exempt income (if any), to its shareholders. If the Fund fails to qualify as a RIC for any reason and becomes subject to corporate tax, the resulting corporate taxes could substantially reduce its net assets, the amount of income available for distribution and the amount of its distributions. Such a failure would have a material adverse effect on the Fund and its Shareholders. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions in order to re-qualify as a RIC.

RIC-Related Risks of Investments Generating Non-Cash Taxable Income. Certain of the Fund’s investments will require the Fund to recognize taxable income in a taxable year in excess of the cash generated on those investments during that year. In particular, the Fund invests in loans and other debt obligations that are treated as having “market discount” and/or OID for U.S. federal income tax purposes. Because the Fund may be required to recognize income in respect of these investments before, or without receiving, cash representing such income, the Fund may have difficulty satisfying the annual distribution requirements applicable to RICs and avoiding Fund-level U.S. federal income and/or excise taxes. Accordingly, the Fund may be required to sell assets, including at potentially disadvantageous times or prices, borrow, raise additional equity capital, make taxable distributions of its shares or debt securities, or reduce new investments, to obtain the cash needed to make these income distributions. If the Fund liquidates assets to raise cash, the Fund may realize gain or loss on such liquidations; in the event the Fund realizes net capital gains from such liquidation transactions, its Common Shareholders may receive larger capital gain distributions than they would in the absence of such transactions.

Misconduct of Employees and of Third-Party Service Providers Risk. Misconduct by employees of the Adviser or by third-party service providers could cause significant losses to the Fund. Employee misconduct may include binding the Fund to transactions that exceed authorized limits or present unacceptable risks and unauthorized investment activities or concealing unsuccessful investment activities (which, in either case, may result in unknown and unmanaged risks or losses). Losses could also result from actions by third-party service providers, including, without limitation, failing to recognize trades and misappropriating assets. In addition, employees and third-party service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting the Fund’s business prospects or future marketing activities. No assurances can be given that the due diligence performed by the Adviser will identify or prevent any such misconduct.

LIBOR Risk. The Fund’s investments and payment obligations may be based on floating rates, such as London Interbank Offer Rate (“LIBOR”), Euro Interbank Offered Rate and other similar types of reference rates (each, a “Reference Rate”). The Chief Executive of the UK Financial Conduct Authority (“FCA”), which regulates LIBOR, has announced plans to phase out the use of LIBOR by the end of 2021. The transition may result in a reduction in the value of certain instruments held by a Fund or a reduction in the effectiveness of related Fund transactions such as hedges. There remains uncertainty regarding future utilization of LIBOR and the nature of any replacement rate (e.g., the Secured Overnight Financing Rate, which is intended to replace U.S. dollar LIBOR and measures the cost of overnight borrowings through repurchase agreement transactions collateralized with U.S. Treasury securities), and any potential effects of the transition away from LIBOR on a Fund or on certain instruments in which a Fund invests are not known and could result in losses to a Fund.

In advance of the end of 2021, regulators and market participants will work together to identify or develop successor Reference Rates. Market participants have and will continue to focus on the transition mechanisms by which the Reference Rates in existing contracts or instruments may be amended, whether through marketwide protocols, fallback contractual provisions, bespoke negotiations or amendments or otherwise. Nonetheless, the termination of certain Reference Rates presents risks to the Fund. At this time, it is not possible to completely identify or predict the effect of any such changes, any establishment of alternative Reference Rates or any other reforms to Reference Rates that may be enacted in the UK or elsewhere. The elimination of a Reference Rate or any other changes or reforms to the determination or supervision of Reference Rates could have an adverse impact on the market for or value of any securities or payments linked to those Reference Rates and other financial obligations held by the Fund or on its overall financial condition or results of operations. In addition, any substitute Reference Rate and any pricing adjustments imposed by a regulator or by counterparties or otherwise may adversely affect the Fund’s performance and/or NAV.

SOURCE CAPITAL, INC.

ADDITIONAL INFORMATION REGARDING THE FUND

(Unaudited) (Continued)

Closed-end Fund Risk. Unlike an open-ended fund, which needs to maintain liquidity for investor redemptions, the Fund may take advantage of the lack of daily in/outflows due to the Fund's closed-end nature. Consequently, the Fund may hold less cash and cash equivalents than it might otherwise hold if it were an open-end fund. In addition, the Fund may opportunistically own more "illiquid" assets (as defined by the SEC) and more assets that have greater near-term price volatility (including, but not limited to, interest-only securities).

Share Repurchases Risk. Any acquisition by the Fund of its shares, pursuant to its share repurchase program, will decrease the amount of total assets of the Fund, and therefore, may increase the Fund's expense ratio. If the Fund liquidates a portion of its investment portfolio in connection with a share repurchase, such liquidation might be at a time when independent investment judgment would not dictate such action, increasing the Fund's overall portfolio turnover (and related transaction costs) and making it more difficult for the Fund to achieve its investment objective.

SOURCE CAPITAL, INC.

PRIVACY POLICY

(Unaudited)

The following is the privacy notice of the mutual funds managed by First Pacific Advisors, LP (“FPA”, and the mutual funds, the “FPA Funds”). A complete list of funds is provided below.

The FPA Funds take privacy seriously and consider privacy to be a fundamental aspect of its relationships with its former, prospective and current investors. The FPA Funds are committed to maintaining the confidentiality, integrity and security of its former, current, and prospective investors’ non-public personal information and other personal information. This privacy policy describes our privacy practices surrounding the collection and sharing of non-public personal information and other personal information of current, former and prospective investors and visitors to websites maintained by the FPA Funds.

Obtaining Personal Data

While providing investors and/or prospective investors (collectively, “investors”) with products and services, the FPA Funds, and certain service providers, such as the FPA Fund’s Transfer Agents and/or Administrators, may obtain personal data about such investors, which may come directly from the investor or their intermediaries from sources such as: (i) account applications, subscription agreements and other forms, (ii) written, electronic or verbal correspondence, (iii) investor transactions, (iv) an investor’s brokerage or financial advisory firm, financial advisor or consultant, and/or (v) from information captured on applicable websites, including information you may voluntarily provide when you subscribe to receive FPA’s quarterly updates or request us to mail you information about the FPA Funds. In addition, the FPA Funds may collect additional personal data from different sources, such as affiliates or their service providers; public websites or other publicly available sources such as government records; or from credit reporting agencies, sanctions screening databases, or from sources designed to detect and prevent fraud.

The personal data collected about an investor may include: (i) identifiers and similar information such as the investor’s name, address, tax identification number, birth date, driver’s license number, and potentially email address and phone number (if provided); (ii) certain information protected under other federal or state law, like an investor’s signature or bank account information; (iii) characteristics of protected classifications under federal or state law, like gender or marital status; (iv) commercial information like an investment selection, beneficiary information, or transaction and account history with the FPA Funds; (v) internet or other electronic network activity like interactions with the FPA website; (vi) professional or employment-related information like an investor’s occupation and job title; and (vii) inferences drawn from the other categories to build a profile on an investor to, for example, gauge an investor’s potential interest in investing in new funds or products.

Respecting Your Privacy

The FPA Funds do not disclose any personal data provided by investors or gathered by the FPA Funds to third parties, except as required or permitted by law or as necessary for such third parties to perform their agreements with respect to the FPA Funds. Non-affiliated companies may from time to time be used to provide certain services, such as maintaining investor accounts, preparing and mailing prospectuses, reports, account statements and other information, and gathering shareholder proxies. The FPA Funds may also provide an investor’s personal data and account information to the investor’s respective custodian, brokerage or financial advisory firm and/or financial advisor or consultant.

Sharing Information with Third Parties

The FPA Funds reserve the right to report or disclose personal data or account information to third parties in circumstances where the FPA Funds believe in good faith that disclosure is required or permitted under law, to cooperate with regulators or law enforcement authorities, to protect their rights or property, or upon reasonable request by the FPA Funds in which an investor has invested. In addition, the FPA Funds may disclose information about an investor or an investor’s accounts to a third party at the investor’s request or direction or with the consent of the investor.

Procedures to Safeguard Private Information

The FPA Funds will take reasonable steps and use security measures appropriate to the nature of the information and that comply with applicable laws to protect investors’ personal data against unauthorized access and exfiltration, acquisition, theft, or disclosure. In addition to this policy, the FPA Funds have implemented internal procedures that are designed to help guard investors’ personal data. Given the nature of information security, there is no guarantee that such safeguards will always be successful.

Information Collected Automatically from Websites

When you visit a website maintained by the FPA Funds, those sites may collect certain information about that visit through automated tools, including cookies. Cookies are bits of data that a website sends to a web browser on a visitor’s computer. Websites maintained by the FPA Funds use cookies and other tools to operate the websites and collect analytics information about your visit to our websites, including the number of visitors to a website and the webpages visited. These tools may be provided by third party analytics providers. The analytics information collected does not identify a particular individual visitor or user. You can change your cookie preferences by changing the setting on your web browser to delete or reject cookies. If you delete or reject cookies, some website pages may not function properly. The FPA Funds website does not respond to “do not track” signals.

SOURCE CAPITAL, INC.

PRIVACY POLICY

(Unaudited) (Continued)

Links to Other Websites

This privacy policy only addresses the use and disclosure of personal data in conjunction with your use of websites maintained by the FPA Funds. These websites may contain links to other websites. If we create such a link, we will let you know when you are leaving the FPA website. These third-party websites may collect information, including personal data, from you. Please be aware that we are not responsible for the privacy practices or the content of third-party websites. We disclaim liability for any information, materials, products or services offered at any of the third-party sites linked to websites maintained by the FPA Funds. The availability of a link to another party's website is provided as a convenience, but it does not constitute an endorsement or sponsorship of any third party or their products, and does not create an affiliation or partnership between FPA and any third party. You should also be aware that third parties have different privacy policies than FPA and may have different information security practices. We encourage you to read the privacy statements provided by other websites before you provide personal data to them.

Changes to the Privacy Policy

From time to time, the FPA Funds may update or revise this privacy policy. If there are changes to the terms of this privacy policy, documents containing the revised policy on the relevant website will be updated.

FPA Funds

FPA Crescent Fund, FPA New Income, Inc., FPA Flexible Fixed Income Fund, FPA U.S. Core Equity Fund, Inc., FPA Queens Road Value Fund, FPA Queens Road Small Cap Value Fund, and Source Capital, Inc.

Revised: February 2021

SOURCE CAPITAL, INC.

DIRECTOR AND OFFICER INFORMATION

(Unaudited)

Sandra Brown, Mark L. Lipson, Alfred E. Osborne, Jr., A. Robert Pisano, and Patrick B. Purcell are all Directors of the Fund who are not “interested persons” of the Fund, as that term is defined in the 1940 Act (collectively, the “Independent Directors”). Directors serve until their resignation, removal or retirement.

<u>Name, Address⁽¹⁾ and Year of Birth</u>	<u>Position(s) Held with the Fund</u>	<u>Year First Elected as Director of the Fund</u>	<u>Principal Occupation(s) During the Past Five Years</u>	<u>Number of FPA Funds Overseen by Director</u>	<u>Other Directorships Held by Director During the Past Five Years</u>
Independent Directors					
Sandra Brown, 1955	Director	2016	Consultant (since 2009). Formerly, CEO and President of Transamerica Financial Advisers, Inc. (1999-2009); President, Transamerica Securities Sales Corp. (1998-2009); Vice President, Bank of America Mutual Fund Administration (1990-1998). Director/Trustee of FPA Funds Trust, FPA New Income, Inc., FPA U.S. Core Equity Fund, Inc., and Source Capital (since 2016), and Director of Bragg Capital Trust (since 2020).	7	None
Mark L. Lipson, 1949	Director & Chairman	2015	Registered Investment Adviser, ML2 Advisors, LLC (since 2014). Formerly Managing Director, Bessemer Trust (2007-2014) and US Trust (2003-2006); Chairman and CEO of the Northstar Mutual Funds (1993-2001); and President and CEO of the National Mutual Funds (1988-1993). Director/Trustee of FPA Funds Trust, FPA New Income, Inc., FPA U.S. Core Equity Fund, Inc., and Source Capital (since 2015), and Director of Bragg Capital Trust (since 2020).	7	None
Alfred E. Osborne, Jr., 1944	Director	2013	Senior Associate Dean, (2003-Present), Interim Dean (2018-June 2019), Professor and Faculty Director (since 2003) Price Center for Entrepreneurship and Innovation at the John E. Anderson School of Management at UCLA. Dr. Osborne has been at UCLA since 1972. Director/Trustee of FPA Funds Trust, FPA New Income, Inc., FPA U.S. Core Equity Fund, Inc., and Source Capital (since 2013), and Director of Bragg Capital Trust (since 2020).	7	Kaiser Aluminum, and Wedbush Capital
A. Robert Pisano, 1943	Director	2013	Consultant (since 2012). Formerly, President and Chief Operating Officer of The Motion Picture Association of America, Inc. (2005-2011). Formerly, National Executive Director and Chief Executive Officer of The Screen Actors Guild (2001-2005). Director/Trustee of FPA Funds Trust, FPA New Income, Inc., FPA U.S. Core Equity Fund, Inc., and Source Capital (since 2013), and Director of Bragg Capital Trust (since 2020).	7	Resources Global Professionals
Patrick B. Purcell, 1943	Director	2010	Retired (since 2000). Formerly, Consultant to Paramount Pictures 1998-2000; Executive Vice President, Chief Financial and Administrative Officer of Paramount Pictures (1983-1998). Director/Trustee of FPA Funds Trust, FPA New Income, Inc., FPA U.S. Core Equity Fund, Inc., and Source Capital (since 2012), and Director of Bragg Capital Trust (since 2020).	7	None

SOURCE CAPITAL, INC. DIRECTOR AND OFFICER INFORMATION

(Unaudited) (Continued)

<u>Name, Address⁽¹⁾ and Year of Birth</u>	<u>Position(s) Held with the Fund</u>	<u>Year First Elected as Director of the Fund</u>	<u>Principal Occupation(s) During the Past Five Years</u>	<u>Number of FPA Funds Overseen by Director</u>	<u>Other Directorships Held by Director During the Past Five Years</u>
“Interested” Director⁽²⁾					
J. Richard Atwood, 1960	Director	2016	Director and President of FPA GP, Inc., the General Partner of the Adviser (since 2018). Director/Trustee (since 2016, except the Bragg Capital Trust since 2020) and President (since 2015, except the Bragg Capital Trust since 2020) of each FPA Fund. Formerly, Managing Partner of FPA (2006-2018). Formerly, until 2015, Treasurer of each FPA Fund for more than the past five years.	7	None

⁽¹⁾ The address of each Director is 11601 Wilshire Boulevard, Suite 1200, Los Angeles, California 90025.

⁽²⁾ “Interested person” within the meaning of the 1940 Act by virtue of their affiliation with the Fund’s Adviser.

SOURCE CAPITAL, INC.

DIRECTOR AND OFFICER INFORMATION

(Unaudited) (Continued)

Officers of the Fund. Officers of the Fund are elected annually by the Board.

<u>Name, Address⁽¹⁾ and Year of Birth</u>	<u>Position with Fund</u>	<u>Year First Elected as Officer of the Fund</u>	<u>Principal Occupation(s) During the Past Five Years</u>
Steven Romick, 1963	Vice President and Portfolio Manager	2015	Director and President of FPA GP, Inc., the General Partner of the Adviser (since 2018). Vice President (since 2015) and Portfolio Manager of FPA Crescent Fund, a series of FPA Funds Trust (since 1993) and of Source Capital, Inc. (since 2015). Formerly, Managing Partner of FPA (2010-2018). Formerly, President of the Trust (2002-2015).
Mark Landecker, 1975	Vice President and Portfolio Manager	2015	Partner of FPA (since 2013). Formerly, Vice President of FPA (2009-2012). Vice President and Portfolio Manager of Source Capital, Inc. (since 2015) and Vice President (since 2015) and Portfolio Manager (since 2013) of the FPA Crescent Fund, a series of the FPA Funds Trust. Formerly, Managing Director (January 2013-December 2013).
Brian Selmo, 1977	Vice President and Portfolio Manager	2015	Partner of FPA (since 2013). Vice President and Portfolio Manager of Source Capital, Inc. (since 2015) and Vice President (since 2015) and Portfolio Manager (since 2013) of the FPA Crescent Fund, a series of the FPA Funds Trust. Formerly, Managing Director (January 2013-December 2013).
Thomas. H. Atteberry, 1953	Vice President and Portfolio Manager	2015	Partner of FPA. Formerly Chief Executive Officer of the Fund (until 2015). Vice President and Portfolio Manager of FPA Flexible Fixed Income Fund (since 2018).
Abhijeet Patwardhan, 1980	Vice President and Portfolio Manager	2015	Partner (since 2017) and a Director of Research (since 2015) of FPA; Managing Director of FPA from 2015 to 2017, Senior Vice President of FPA from 2014 to 2015; Analyst and Vice President of FPA from 2010 to 2013. Vice President and Portfolio Manager of FPA Flexible Fixed Income Fund (since 2018).
Ryan A. Leggio, 1980	Vice President, Strategy	2021	Partner of FPA (since 2018), and previously Senior Vice President (2014-2017) and Vice President (2011-2013).
J. Richard Atwood, 1960	President	1997	Director and President of FPA GP, Inc., the General Partner of FPA (since 2018). Director/Trustee (since 2016, except Bragg Capital Trust since 2020) and President for more than the past five years (except Bragg Capital Trust since 2020) of each FPA Fund. Formerly, Managing Partner of FPA (2006-2018).
Karen E. Richards, 1969	Chief Compliance Officer	2019	Chief Compliance Officer of FPA (since 2018); and Chief Compliance Officer of each FPA Fund (since 2019, except Bragg Capital Trust since 2020). Formerly, Deputy Chief Compliance Officer of First Republic Investment Management, LLC (from 2016 to 2018), and Vice President, Senior Compliance Officer of Pacific Investment Management Company (from 2010 to 2016).
E. Lake Setzler III, 1967	Treasurer	2006	Senior Vice President (since 2013) and Controller of FPA; and Treasurer of each FPA Fund for more than the past five years (except Bragg Capital Trust since 2020).
Rebecca D. Gilding, 1979	Secretary	2019	Vice President and Counsel, State Street Bank and Trust Company (since 2016); and Secretary of each FPA Fund (since 2019, except Bragg Capital Trust since 2020). Formerly, Assistant Vice President and Associate Counsel, Brown Brothers Harriman & Co. (2013 to 2016).

⁽¹⁾ The address for each Officer (except Ms. Gilding) is 11601 Wilshire Boulevard, Suite 1200, Los Angeles, California 90025. Ms. Gilding's address is State Street Bank and Trust Company, One Lincoln Street, Boston, Massachusetts 02111.

SOURCE CAPITAL, INC.

(Unaudited)

INVESTMENT ADVISER

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CUSTODIAN AND ADMINISTRATOR

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LEGAL COUNSEL

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TRANSFER AND SHAREHOLDER SERVICE AGENT AND REGISTRAR

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
(800) 279-1241 or (718) 921-8124
www.amstock.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
725 South Figueroa Street
Los Angeles, California 900017

STOCK EXCHANGE LISTING

New York Stock Exchange: SOR

SUMMARY OF DIVIDEND REINVESTMENT PLAN

Holders of record (other than brokers or nominees of banks and other financial institutions) of Common Stock are eligible to participate in the Dividend Reinvestment Plan (“Plan”), pursuant to which distributions to shareholders are paid in or reinvested in shares of Common Stock of the Fund (“Dividend Shares”). American Stock Transfer & Trust Company, LLC, acts as the “Agent” for Plan participants. All correspondence with the Agent should be sent to: American Stock Transfer & Trust Company, LLC, Attn: Shareholder Relations Department, 6201 15th Avenue, Brooklyn, New York, 11219.

A shareholder may join the Plan by signing and returning an authorization form that may be obtained from the Agent. A shareholder may elect to withdraw from the Plan at any time by written notice to the Agent and thereby elect to receive cash in lieu of Dividend Shares. There is no penalty for withdrawal from the Plan, and shareholders who have previously withdrawn from the Plan may rejoin at any time. The Fund reserves the right to amend or terminate the Plan.

Purchases of the Fund’s shares are made by the Agent, on behalf of the participants in the Plan, promptly after receipt of funds, and in no event later than 30 days from such receipt except when restricted under applicable federal securities laws. The Agent purchases outstanding shares in the market when the price plus estimated commissions of the Fund’s Common Stock on the NYSE is lower than the Fund’s most recently calculated net asset value per share. To the extent that outstanding shares are not available at a cost of less than per share net asset value, the Agent, on behalf of the participants in the Plan, accepts payment of the dividend, or the remaining portion thereof, in authorized but unissued shares of Common Stock of the Fund on the payment date. Such shares are issued at a per share price equal to the higher of (1) the net asset value per share on the payment date, or (2) 95% of the closing market price per share on the payment date. There are no brokerage charges with respect to

shares issued directly by the Fund to satisfy the dividend reinvestment requirements. However, each participant pays a pro rata share of brokerage commissions incurred with respect to the Agent’s open market purchases of shares. In each case, the cost per share of shares purchased for each shareholder’s account is the average cost, including brokerage commissions, of any shares purchased in the open market plus the cost of any shares issued by the Fund.

For Federal income tax purposes, shareholders who reinvest distributions are treated as receiving distributions in an amount equal to the fair market value, determined as of the payment date, of the shares received if the shares are purchased from the Fund. Such value may exceed the amount of the cash distribution that would have been paid. If outstanding shares are purchased in the open market, the taxable distribution equals the cash distribution that would have been paid. In either event, the cost basis in the shares received equals the amount recognized as a taxable distribution.

In the case of foreign participants whose dividends are subject to United States income tax withholding and in the case of any participants subject to 31% federal backup withholding, the Agent will reinvest dividends after deduction of the amount required to be withheld.

All record holders of Common Stock are also offered the opportunity, on a voluntary basis, to send in cash payments of not less than \$100 each up to a total of \$7,500 per month to purchase additional shares of the Common Stock of the Fund through participation in the Cash Investment Plan (“Cash Plan”). Under the Cash Plan, shares are purchased in the market and no shares are issued by the Fund. A brochure describing the terms and conditions of the Cash Plan, including fees and expenses, is available from the Agent.

SOURCE CAPITAL, INC.

11601 Wilshire Boulevard, Suite 1200
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