



SOURCE CAPITAL, INC.

THIRD QUARTER REPORT

September 30, 2019

SOURCE CAPITAL, INC.

LETTER TO SHAREHOLDERS

Dear Shareholders:

Performance

During the third quarter of 2019, the net asset value (“NAV”) per share return of Source Capital (or the “Fund”) was 0.20%, and 0.51% on a market price basis (both percentages including the reinvestment of the distributions paid during the period). These changes compare with a third quarter return of 1.70% for the S&P 500 Index and a return of 1.96% return for the 60/40 blended S&P 500/ Bloomberg Barclays U.S. Aggregate Bond Index indices during the same period. For the calendar year to date period, the NAV per share return of the Fund was 14.15%, and 14.49% on a market price basis (both percentages including the reinvestment of the distributions paid during the period). These changes compare with returns of 20.55% and 15.86% for the S&P 500 Index and the 60/40 blended S&P 500/ Bloomberg Barclays U.S. Aggregate Bond Index indices during the same period, respectively. For the twelve months ended September 30, 2019, the Fund returned 2.77% and 2.24% on a NAV and market price basis, compared with returns of 4.25% and 7.10% for the S&P 500 Index and the 60/40 blended S&P 500/ Bloomberg Barclays U.S. Aggregate Bond Index indices during the same period, respectively.¹

The Fund’s top five contributors and detractors for the third quarter of 2019 are presented below. The winners contributed 1.16%, while the losers detracted 0.86%.²

<u>Q3 Contributors</u>	<u>Performance Contribution</u>	<u>Percent of Portfolio</u>	<u>Detractors</u>	<u>Performance Contribution</u>	<u>Percent of Portfolio</u>
Alphabet	0.48%	4.4%	Baidu	-0.21%	1.5%
AIG	0.21%	4.5%	Heidelbergcement	-0.20%	1.7%
Comcast	0.19%	2.7%	Facebook	-0.19%	2.4%
Wells Fargo	0.14%	1.8%	Glencore	-0.14%	1.1%
United Technologies	0.13%	2.5%	Naspers	-0.13%	1.2%

The Fund’s top five contributors and detractors for the 12 months ended September 30, 2019 are presented below. The winners contributed 2.97%, while the losers detracted 3.88%.²

<u>YTD Contributors</u>	<u>Performance Contribution</u>	<u>Percent of Portfolio</u>	<u>Detractors</u>	<u>Performance Contribution</u>	<u>Percent of Portfolio</u>
Comcast	0.69%	2.5%	Baidu	-1.75%	2.1%
Analog Devices	0.62%	2.6%	Mylan	-0.96%	1.4%
Arconic	0.57%	3.1%	WPP	-0.43%	0.4%
Charter					
Communications	0.56%	2.2%	Mohawk Industries	-0.40%	1.1%
Broadcom	0.53%	2.9%	Glencore	-0.34%	1.3%

¹ Comparison to the S&P 500 Index and the Bloomberg Barclays U.S. Aggregate Bond Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

² The 3Q 2019 and YTD 2019 top five contributors and detractors to the Fund’s performance is based on contribution to return for the periods noted. 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. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed.

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

Markets

In the equity markets, continued market strength in the first three quarters of the year has delivered good and bad news. The Fund's long equity positions have increased in value along with the market.³ Market strength, however, has made most stocks more expensive – and it wasn't like they were being given away to begin with. Threats to global equity markets abound. There are trade wars and negative interest rates that pervert asset pricing models, not to mention a rising tide of global populism, looming Brexit, and unprecedented global leverage. In the United States, during the quarter, we had an inverted yield curve, high valuations for risk assets, a president prone to tweets that spook the markets and, just around the corner, an election likely to produce a number of surprises.

Yet the equity markets, shrugging off such anxieties, continue to sustain and propel the longest U.S. economic expansion and bull market in recent history.⁴ Investors have generally bid up risk assets to the point that most offer less of a margin of safety than we like.⁵

Similarly in the debt markets, today's low yields and low spreads offer little compensation to investors for what is, in this economic and political climate, heightened risk of permanent impairment of capital. Yet, when rates and the compensation for credit risk are low, investors tend to abandon discipline in the quest to make money, lending on egregiously lenient terms to borrowers with untested business models at hopeful valuations for inadequate returns. We prefer to avoid the dross and exercise patience, protecting capital until we believe valuations are more attractive.

Rights Offering

On September 12, 2019, we publicly announced that we were not moving forward with the previously announced rights offering. The Board of Directors (the "Board") of the Fund came to this decision based on the recommendations and presentations of First Pacific Advisors, LP ("FPA"), the Fund's investment adviser (the "Adviser"), and others. In making its decision, the Board also considered current market conditions, feedback received by the Adviser from certain Fund shareholders and other relevant factors, and determined that it was in the best interests of the Fund and its common shareholders to not move forward with the rights offering.

In conversations with the Adviser, certain Fund shareholders were supportive of the Adviser's intention to make new investments focused on private credit and higher yielding instruments and that such investments are well-suited for the Fund's closed-end structure, but expressed a desire for different terms of subscription rights. We evaluated modifying the terms of this offer but were unable given current market conditions. We intend to reevaluate the timing and terms of a rights offering and may revisit conducting one in the future.

³ The Fund's 'long equity positions' exclude preferred securities.

⁴ Source: National Bureau of Economic Research and JP Morgan Asset Management. There have been 123 months of economic expansion for the period June 1, 2009 through September 30, 2019, which bests the prior economic expansion of 120 months for the period March 1, 1991 through March 21, 2001. The current bull market has been ongoing since March 2009 through September 30, 2019.

⁵ Margin of Safety is a principle of investing in which an investor purchases securities when they believe the market price is significantly below its estimated intrinsic value. Using the margin of safety principle may help to reduce downside risk. Note, determining a company's "true" worth or intrinsic value is highly subjective. There is no guarantee that the methods used to evaluate intrinsic value will be accurate or precise or that an investment made using this principle will be successful.

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

The Adviser is evaluating the extent to which a portion of the Fund's existing assets may be repositioned in the direction of private credit and other higher yielding instruments and in the future intends to consider the implementation of certain enhancements, in consultation with the Board, intended to maximize shareholder value. These enhancements may include, but are not limited to, increasing the frequency of the Fund's distributions, the level and consistency of such distributions, expanding the Fund's investment flexibility, and increasing the Fund's visibility in the market. Some of these enhancements may require a shareholder vote. There is no assurance that the Fund will be able to or will implement any or all of these enhancements.

Removal of Operating Policies/Restrictions

At its July 8, 2019 meeting, based on the recommendation of the Adviser, the Board determined that it was in the best interests of shareholders to remove the following operating policies/restrictions relating to portfolio investments:

- The Fund may not invest more than 5% of the value of its total assets in securities of companies which (including predecessor companies or operations) have been in business less than three years.
- The Fund may not invest more than 5% of its net assets in warrants or rights valued at the lower of cost or market, nor more than 2% of its net assets in warrants or rights (valued on such basis) which are not listed on the NYSE or American Stock Exchange. Warrants or rights acquired in units or attached to other securities are not subject to the foregoing limitations.
- The Fund may not invest more than 5% of the value of its total assets in securities of foreign issuers under circumstances that would subject it to any federal interest equalization tax then in effect or at prices that reflect any such tax.
- The Fund may not purchase a restricted security, other than a debt security, if the total value of restricted securities, other than debt securities, owned by the Fund would exceed 15% of its net assets.
- The Fund may not purchase a restricted debt security if the total value of restricted debt securities owned by the Fund would exceed 30% of its total assets.
- While the Fund may invest in securities of an issuer for the purpose of exercising control or management thereof, it is the Fund's operating policy not to do so except where necessary to realize the value of a prior investment.
- The Fund will not compromise on company quality or valuation in order to make cash investments, even if the cash level is at the high end of the Fund's historical range.

The removal of these policies will further assist the Adviser with the repositioning of the portfolio as discussed above.

Termination of Stock Repurchase Program

On November 11, 2019, the Board terminated the Fund's stock repurchase program, which was initially approved by the Board on November 16, 2015. The Board may adopt a new stock repurchase program for the Fund, solely in its discretion, at any future time in response to various events, including, but not limited to, changing market conditions and/or material variations in the Fund's discount level. The adoption of any future stock repurchase program for the Fund will be publicly disclosed prior to its effectiveness.

Prior to the termination of the Fund's stock repurchase program discussed above, we repurchased 2,523 shares in the third quarter of 2019 at an average discount of 14.63%. The shares repurchased were accretive to shareholders by adding almost \$0.002 per share to the Fund's NAV.

Respectfully submitted,

Source Capital Portfolio Management Team
November 2019

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. 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 indices noted. Overall Fund performance, characteristics and volatility may differ from the benchmark(s) 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 securities are for informational purposes only and should not be construed as recommendations by the Fund, FPA, or the portfolio managers. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. Please visit our website, <https://fpa.com/funds/portfolio-characteristics/source-capital>, for a complete list of portfolio holdings.

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. In addition, 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.

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 Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; these risks may be heightened when investing in emerging markets. 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 Depository 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. Lower rated bonds, convertible securities and other types of debt obligations involve greater risks than higher rated bonds.

When interest rates go up, the value of fixed income securities, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principle due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults, the security may lose some or all its value.

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 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.

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

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

The Bloomberg Barclays U.S. Aggregate Bond Index provides a measure of the performance of the U.S. investment grade bonds market, which includes investment grade U.S. 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 U.S. dollars and must be fixed rate, nonconvertible, and taxable.

60% S&P 500/40% Bloomberg Barclays U.S. Aggregate Bond Index is a hypothetical combination of unmanaged indices comprised of 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index, representing the Fund's neutral mix of 60% stocks and 40% bonds.

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.
TOP TEN HOLDINGS

September 30, 2019
(Unaudited)

	<u>Percentage of Net Assets</u>
American International Group, Inc.	4.54%
Arconic, Inc.	3.90%
Citigroup, Inc.	2.92%
Analog Devices, Inc.	2.89%
Broadcom, Inc.	2.73%
Comcast Corp. (Class A)	2.68%
Bank of America Corp.	2.57%
United Technologies Corp.	2.53%
Alphabet, Inc. (Class C)	2.50%
Alphabet, Inc. (Class A)	<u>2.49%</u>
Total	<u><u>29.75%</u></u>

SOURCE CAPITAL, INC. PORTFOLIO SUMMARY

September 30, 2019
(Unaudited)

Common Stocks		62.3%
Internet Media	9.7%	
Diversified Banks	6.6%	
Aircraft & Parts	6.4%	
Semiconductor Devices	5.6%	
Cable & Satellite	5.0%	
P&C Insurance	4.5%	
Cement & Aggregates	4.1%	
Investment Companies	3.3%	
Electrical Components	2.3%	
Banks	2.0%	
Infrastructure Software	2.0%	
Midstream — Oil & Gas	1.9%	
Consumer Finance	1.4%	
Insurance Brokers	1.4%	
E-Commerce Discretionary	1.4%	
Mining Services	1.2%	
Generic Pharmaceuticals	1.0%	
Home Improvement	0.7%	
Medical Equipment	0.7%	
Application Software	0.6%	
Food & Drug Stores	0.5%	
Closed End Fund		0.8%
Bonds & Debentures		34.1%
Asset-Backed Securities	15.6%	
Residential Mortgage-Backed Securities	8.2%	
Commercial Mortgage-Backed Securities	3.8%	
U.S. Treasuries	3.6%	
Corporate Bank Debt	2.7%	
Corporate Bonds & Notes	0.2%	
Short-term Investments		3.9%
Securities Sold Short		(0.2)%
Other Assets And Liabilities, Net		(0.9)%
Net Assets		<u>100.0%</u>

SOURCE CAPITAL, INC.
COMPOSITION OF NET ASSETS*

September 30, 2019

Investment securities (cost \$315,093,814):	
Common stocks	\$222,884,367
Closed End Fund	2,770,446
Bonds, debentures and other investments	121,961,039
	<u>\$347,615,852</u>
Cash, receivables, short-term corporate notes, less liabilities	10,097,347
Net assets at September 30, 2019	<u>\$357,713,199</u>

SUMMARY FINANCIAL INFORMATION*

For the Periods Ended September 30, 2019

	Nine Months		Three Months	
	Total Net Assets	Per Common Share	Total Net Assets	Per Common Share
Beginning of period	<u>\$321,869,963</u>	<u>\$37.66</u>	<u>\$359,262,841</u>	<u>\$42.37</u>
Net gain (loss) on investments, realized and unrealized	\$ 39,338,429	\$ 4.62	\$ (1,984,845)	\$ (0.23)
Net investment income	5,410,724	0.63	2,647,011	0.31
Distributions to Common shareholders	(6,370,444)	(0.75)	(2,119,117)	(0.25)
Cost of Capital Stock repurchased	(2,535,473)	0.04	(92,691)	0.00
Net changes during period ..	<u>\$ 35,843,236</u>	<u>\$ 4.54</u>	<u>\$ (1,549,642)</u>	<u>\$ (0.17)</u>
End of period	<u>\$357,713,199</u>	<u>\$42.20</u>	<u>\$357,713,199</u>	<u>\$42.20</u>
	Sept. 30, 2019	June 30, 2019	Dec. 31, 2018	
Common market price per share	\$36.51	\$36.57	\$32.55	
Common net asset value	\$42.20	\$42.37	\$37.66	
Common market discount from net asset value	13.47%	13.69%	13.57%	

* The financial information included in this report has been taken from the records of the Company without examination by independent auditors. Securities are carried at fair value.

SOURCE CAPITAL, INC.



DIRECTORS

Mark L. Lipson, *Chairman*
J. Richard Atwood
Sandra Brown
Alfred E. Osborne, Jr.
A. Robert Pisano
Patrick B. Purcell

OFFICERS

Steven Romick, *Portfolio Manager*
Mark Landecker, *Portfolio Manager*
Brian Selmo, *Portfolio Manager*
Thomas H. Atteberry, *Portfolio Manager*
Abhijeet Patwardhan, *Portfolio Manager*
J. Richard Atwood, *President*
Karen Richards, *Chief of Compliance Officer*
E. Lake Setzler III, *Treasurer*
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STOCK EXCHANGE LISTING

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