Dear Shareholders:

Overview

Source Capital Inc.'s ("Source" or "Fund") net asset value (NAV) increased 3.34% in 2021's second quarter and 27.19% for the trailing twelve months.

Source's performance and that of its underlying equity exposure are captured in the following table:

Exhibit A: **Performance Versus Indices**[1]

	Q2 2021	Trailing 12-month
Source Capital (NAV)	3.34%	27.19%
Source Capital – Equity (Gross)	3.87%	33.98%
60% MSCI ACWI/40% BB U.S. Agg	5.15%	22.19%
60% S&P 500/40% BB U.S. Agg	5.84%	23.02%

Exhibit B: **Portfolio Exposure**[2]

	Q2 2021
Equity	
Common Stocks	*55.5%*
Common Stocks –SPACs	*6.1%*
Total Equity	61.6%
Credit	
Public	*19.6%*
Private (Invested assets only)	*11.2%*
Total Credit	30.8%
Other	0.1%
Cash	7.5%
Total	**100%**

Portfolio Discussion

Equity

As stewards of your capital, we presently find ourselves feeling uncomfortably comfortable, which we find an odd sensation. We don't mean to imply that we feel complacent; however, the Fund's cash levels are significantly lower than in recent years. With a relatively modest amount of dry powder, we no longer wake each morning hoping for a market pullback that offers a flood of potential bargains. Instead, we would now be happy with a sale in just one section of the store, allowing us to pick up a few discounted securities to go along with a shopping cart that is already relatively full - and we may have tempted fate and invited such an opportunity with our opening line.

[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 *Equity (Gross)* return of the Fund is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. *Equity (Gross)* includes common and preferred stocks. Gross 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] Source: FPA, Morningstar, as of June 30, 2021. Portfolio composition will change due to ongoing management of the Fund. *Cash* includes the non-invested portion of private credit investments.

Past results are no guarantee, nor are they indicative, of future results.

But just because we do not currently welcome a large drawdown for the markets, it does not mean that it will not happen. In fact, we are virtually certain at some point it will, but we just can't tell you when. Though the portfolio will not be immune to the next selloff, whenever it may arrive, we remain committed to seeking equity-like returns over the long-term while avoiding permanent impairment of capital.

Consistent with the above philosophy, back in Q4 2019 the Fund began reporting contributors and detractors on a trailing twelve-month basis rather than the most recent quarter. Quarterly price movements are generally not much more than "noise," frequently reversing in the coming months or quarters. It is therefore more informative to focus on what has happened in the most recent year.[3]

The top contributors to and detractors from the Fund's trailing twelve-month returns are listed below.

Exhibit C: **Trailing Twelve Month Contributors and Detractors as of June 30, 2021**[4]

Contributors	Perf. Cont.	Avg. % of Port.	Detractors	Perf. Cont.	Avg. % of Port.
Alphabet	2.23%	3.7%	McDermott (multiple issues)	-0.77%	0.4%
AIG	1.51%	2.7%	Nexon	-0.04%	1.0%
Comcast	1.36%	3.1%	Just Eat Takeaway	-0.03%	0.1%
TE Connectivity	1.32%	2.4%	JDE Peet's	-0.03%	0.1%
Wells Fargo	1.26%	1.6%	Jardine Strategic	-0.02%	0.1%
	7.68%	**13.5%**		**-0.89%**	**1.7%**

Truth be told, even one year does not align with how we view the world. Of course a longer than average holding period does not guarantee higher than average returns, but it reflects how we are willing to manage your capital (with ours alongside) in a differentiated manner in our quest for differentiated after-tax returns.

In fact, there have been many situations where the Fund has held names for multi-year periods, and there were periods during those times where performance lagged. While it certainly would have aided Fund returns if it had been able to enter, exit, and ultimately re-enter each name to avoid the periods of fallow results, such ambidexterity is easier said than done. We say this with experience, having previously sold shares in high quality equities assured in the belief they would be able to repurchase them in the future at a lower price. Oddly, even when the shares did subsequently trade off, we demonstrated an uncanny consistency for proclaiming the right price for re-entry to be some 5-10% lower than where the shares ultimately bottomed. This has led us to conclude that when it comes to investing in quality equities, one of the keys to generating attractive compound returns is to not interfere with the process of compounding.

So, while at times it may look like we are sitting on names that are stuck in the mud, it is fair to assume we are not overly perturbed by short-term underperformance provided we remain confident that such securities are simply building kinetic energy ahead of delivering future gains. In this manner you can think of us coming into the office each day and not eating the marshmallow lying on our desk, confident that our delayed gratification will be rewarded in the form of a much larger marshmallow at a future date.

Stepping back for a moment, many managers start with an index benchmark when constructing their portfolio and then play a game of over- or underweighting various names or sectors. In sharp contrast, we start with a completely blank page and have a portfolio that looks nothing like any index we have ever observed. So, while we own many well-known companies, such as three of the FAANG constituents, which we believe are reasonably valued, we also round out our holdings with a collection of names that either remain starkly out of favor or are largely absent from the major indices.[5] Examples of such securities include

[3] The Q4 2019 Commentary can be found at: https://fpa.com/docs/default-source/funds/source-capital/literature/quarterly-commentaries/source-capital-commentary-q4-2019.pdf?sfvrsn=2e30929d_6

[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.

[5] The FAANG constituents include: Facebook (FB), Apple (AAPL), Amazon (AMZN), Netflix (NFLX), and Alphabet (GOOG).

Past results are no guarantee, nor are they indicative, of future results.

our Asian holding companies such as LG Corp, Samsung C&T, Softbank, and Swire Pacific, as well as our "Chinternet"-focused positions in Alibaba, Naspers/Prosus, and Baidu.[6]

Though we have discussed the Chinese internet conglomerates regularly in prior commentaries, LG Corp, Samsung C&T, and Softbank are names that were purchased in 2020, and we have yet to publicly profile. Interestingly, LG Corp and Samsung C&T trade at discounts to our estimates of intrinsic value greater than 50% based exclusively on publicly traded marks, while also trading at a single digit multiple to our estimates of look through after-tax earnings for 2021. As for Softbank, look through earnings are challenging to calculate due to limited disclosure for many of the private holdings, but the discount to intrinsic value estimates based on private and public marks is similarly wide to the other two names. Regardless, in all instances we are afforded the privilege of investing alongside the controlling family or founder, and moreover, we believe the underlying asset quality of each conglomerate has significant appeal.

As for Alibaba, Tencent and Baidu, we believe they trade at very wide discounts to intrinsic value estimates based on the "sum of the parts" – a four word phrase often thought of as a curse word for investors with time horizons shorter than our own. While we readily acknowledge many of these "parts" may not contribute to earnings for several years, as genuine long-term oriented investors, we relish the opportunity pick up cheap or even free options, as we believe exists in the form of autonomous driving within Baidu or the cloud business within Alibaba. This is no different to how we viewed asymmetric optionality in past years in the form of Waymo/YouTube within Alphabet, and Oculus/WhatsApp within Facebook.

Speaking of free options, we have also spent the past quarter assembling a portfolio of special purpose acquisition companies or "SPACs", for which we see a positively skewed potential for returns versus the commensurate risk. For those not familiar, a SPAC is a non-operating corporate shell set up by a sponsor to pursue an acquisition of an unknown business on unknown terms. Mechanically, a SPAC's IPO proceeds are placed into an interest bearing trust, and the money in trust can only be used to complete an acquisition or it will be returned to investors if the sponsor fails to complete a deal (typically a two-year window from the SPAC IPO).

In each case, we seek to acquire the SPACs at roughly equal to or slightly less than the trust value per share, mitigating the long-term risk of a permanent loss of capital. The upside occurs if the market takes a favorable view on a potential deal, which would result in the shares trading at a premium to trust value and provide the option to exit the holdings with a capital gain. Alternatively, should investors take a dim view of an announced transaction, we could simply exercise our redemption rights to receive the trust value of the shares in cash.

Quite often we are also buying a share in a SPAC with a unit for warrants attached. In this instance, we have the opportunity to retain the warrants and participate in the future upside of the SPAC even if we choose to sell or redeem the shares prior to the closing of the actual acquisition. In summary, we view our SPAC basket as a case of "heads we win, tails we don't lose."[7]

Fixed income

Traditional

During the second quarter, Treasury yields rose for maturities less than four years and declined for maturities greater than four years as the market digested strong inflation data and Federal Reserve commentary suggesting that monetary policy could be tightened sooner than had previously been expected. Meanwhile, credit spreads continued to decline in both investment grade and high-yield-rated debt.[8] While economic growth has recently been robust, COVID-19 and its variants create uncertainty regarding the persistence of that growth and, consequently, the future path of inflation and rates. Despite higher risk-free

[6] Portfolio composition will change due to ongoing management of the Fund. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed. This is not a recommendation for a specific security and these securities may not be in the Fund at the time you receive this commentary. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpa.com.

[7] SPACs involve risks. There is no guarantee that the Fund's investments in SPACs will be profitable. Please see Important Disclosures for more information about the risks of investing in SPACs.

[8] Investments rated BBB or above are considered investment grade. Credit ratings BB and below are lower-rated investments. Non-investment grade, including high yield, investments involve higher risks than investment grade investments. Investments with credit ratings of CCC or below have a higher default risk.

rates in short-maturity bonds, yields are still low on an absolute basis across the yield curve, creating an unattractive yield environment that we believe offers insufficient compensation for duration and/or credit risk. As such, in our view, the investment opportunity set is limited and we remain focused on protecting capital while trying to earn a return that does not unduly expose our investors to uncompensated credit and mark-to-market risk.

In line with our view that the market is expensive, during the quarter we deployed capital into high-quality, short-duration bonds that we believe will preserve capital in the short and long term as we await more attractive buying opportunities. These investments included, among other things, ABS backed by subprime or prime quality borrowers, CLOs backed by corporate loans, CLOs backed by commercial real estate loans, and equipment ABS.

Private credit

The Fund's private credit holdings continue to ramp. The Fund's exposure (committed + invested capital) increased to 18.2% at quarter end vs. 11.7% at the end of 2020.

Corporate and other

Distribution and yield

On August 9, 2021, the Fund's Board declared monthly Fund distributions at the current rate of 18.5 cents per share through November 2021. This equates to an annualized 4.9% unlevered distribution rate based on the Fund's closing market price on June 30, 2021. We currently expect the vast majority of the year's distribution to be in the form of income and capital gains, rather than return of capital.

Share buyback

During the quarter, a total of 28,175 shares of Source were repurchased, representing 0.34% of the outstanding shares, at an average price of $44.73 per share and at an average discount to net asset value ("NAV") of 8.40%.

Discount to NAV

The Fund's discount to NAV closed at 6.72% on June 30, 2021, down from 8.40% the end of Q1 and 11.96% at year-end 2020. The average discount to NAV for Q2 was 8.38%. We believe this compares favorably to the average discount of 10.65% for Q1 and 10.70% over the trailing twelve months.[9]

Closing

In order to optimize the likelihood of future success, we operate in a perpetual state of adaptation. We tackle each day in the hopes that we learn something new that helps us to be better prepared to face the inevitable challenges and act on new opportunities.

Al Osborne, a long-time Source Shareholder one of the FPA Fund's valued independent board members, offered us this observation from the novelist, playwright, essayist, poet, and activist James Baldwin, "Not everything that is faced can be changed, but nothing can be changed until it is faced."[10] We can't bend the world to our will, but we can always improve.

Thank you for entrusting us with your capital.

Respectfully submitted,

Source Capital Portfolio Management Team

August 10, 2021

[9] Source: FPA. The averages are calculated using daily discount rates.

[10] James Baldwin, *As much truth as one can bear* (New York Times, 1942), Section T, page 11.

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 atwww.fpa.com.

Investing in closed-end funds involves risk, including loss of principal. Closed-end fund shares may frequently trade at a discount (less than) or premium (more than) to their net asset value. If the Fund's shares trade at a premium to net asset value, there is no assurance that any such premium will be sustained for any period of time and will not decrease, or that the shares will not trade at a discount to net asset value thereafter.

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. 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 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.

The Fund may use leverage. 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.

Investing in Special Purpose Acquisition Companies ("SPACS") involves risks. Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. SPACs are not required to provide the depth of disclosures or undergo the rigorous due diligence of a traditional initial public offering (IPO). Investors in SPACs may become exposed to speculative investments, foreign or domestic, in higher risk sectors/industries. SPAC investors generally pay certain fees and give the sponsor certain incentives (e.g., discounted ownership stakes) not found in traditional IPOs. Certain conflicts of interest may arise between investors and sponsors because of these fees and incentives. Other risks of investing in SPACS include, but is not limited to: (i) a significant portion of the monies raised by the SPAC for the purpose of identifying and effecting an acquisition or merger may be expended during the search for a target transaction; (ii) an attractive acquisition or merger target may not be identified at all and the SPAC will be required to return any remaining monies to shareholders; (iii) any proposed merger or acquisition may be unable to obtain the requisite approval, if any of SPAC shareholders; (iv) an acquisition or merger once effected may prove unsuccessful and an investment in the SPAC may lose value; (v) the warrants or other rights with respect to the SPAC held by the Fund may expire worthless or may be repurchased or retired by the SPAC at an unfavorable price; (vi) the Fund will be delayed in receiving any redemption or liquidation proceeds from a SPAC to which it is entitled; (vii) an investment in a SPAC may be diluted by additional later offerings of interests in the SPAC or by other investors exercising existing rights to purchase shares of the SPAC; (viii) no or only a thinly traded market for shares of or interests in a SPAC may develop, leaving the Fund unable to sell its interest in a SPAC or to sell its interest only at a price below what the Fund believes is the SPAC interest's intrinsic value; and (ix) the values of investments in SPACs may be highly volatile and may depreciate significantly over time.

Distribution Rate

Distributions may include ordinary income, net capital gains and/or returns of capital. Generally, a return of capital would occur when the amount distributed by the Fund includes a portion of (or is comprised entirely of) your investment in the Fund in addition to (or rather than) your pro-rata portion of the Fund's net income or capital gains. The Fund's distributions in any period may be more or less than the net return earned by the Fund on its investments, and therefore should not be used as a measure of performance or confused with "yield" or "income." A return of capital is not taxable; rather it reduces a shareholder's tax basis in his or her shares of the Fund. If the Fund estimates that a portion of its distribution may be comprised of amounts from sources other than net investment income, the Fund will notify shareholders of the estimated composition of such distribution through a separate written Section 19 notice. Such notices are provided for informational purposes only, and should not be used for tax reporting purposes. Final tax characteristics of all Fund distributions will be provided on Form 1099-DIV, which is mailed after the close of the calendar year.

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.

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.

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.

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.

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

Discount to Net Asset Value (NAV) is a pricing situation when an exchange-trade fund (ETF) or mutual fund's market trading price is lower than its daily net asset value (NAV).

Net Asset Value (NAV) represents the net value of a mutual fund and is calculated as the total value of the fund's assets minus the total value of its liabilities, and is shown as a per share price.

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.