Source Capital, Inc.
First Quarter 2020 Commentary

Dear Shareholders:

Performance

For the full first quarter of 2020, the net asset value per share of Source Capital, Inc. (the "Fund") declined -19.39%, and -13.79% on a market price basis (both percentages including the reinvestment of the distribution paid during the period). These changes compare with a first quarter decline of 19.60% for the S&P 500 Index and a decline of 10.88% return for the 60/40 blended S&P 500/ Bloomberg Barclays U.S. Aggregate index during the same period.[1]

In spite of the Q1 declines, the world isn't coming to an end. We believe the impact on the Fund is largely a mark-to-market exercise in the midst of the most unsettling series of events that many of us have ever experienced. We appreciate that it is unpleasant to have your portfolio decline in price – though not necessarily in value – and to share in a downside at the higher end of the Fund's historical performance. With the companies we held, we believed we were well-positioned for a normal to deep recession. We were certainly unprepared for the near instantaneous and simultaneous global destruction of supply and demand wrought by COVID-19.

The Fund's top five contributors and detractors for the first quarter of 2020 are presented below. The winners contributed 0.46%, while the losers detracted 7.10%.[2]

Q1 Contributors	Performance Contribution	% of Portfolio	Detractors	Performance Contribution	% of Portfolio
JD.com	0.20%	1.5%	AIG	-1.86%	3.4%
Nexon	0.14%	0.8%	Arconic	-1.83%	3.5%
FRG Term Loan 6.5% 2020	0.05%	0.9%	McDermott (combined)	-1.39%	1.4%
Microsoft	0.05%	1.9%	Citigroup	-1.12%	2.3%
MEC Term Loan 11.23% 2021	0.02%	1.1%	Wells Fargo	-0.88%	1.9%

Markets

The stock market extended its long advance well into the beginning of the quarter – and then the correction hit like a Category 5 hurricane, entirely erasing (at least temporarily) those historic gains and then some. From peak to trough during the quarter, the S&P 500 Index declined about 34%, while the Fund declined about -27%.[3] For the S&P 500, this was the steepest decline of 30 percent or more in its history, occurring more quickly than what previously were historic declines in 1929, 1931, and 1934. Most businesses were ill-prepared for what was a near simultaneous and instantaneous shut-down of the global economy that swiftly destroyed supply and demand.

On the fixed-income side, as shown in the following chart, Treasury yields declined to unprecedented levels

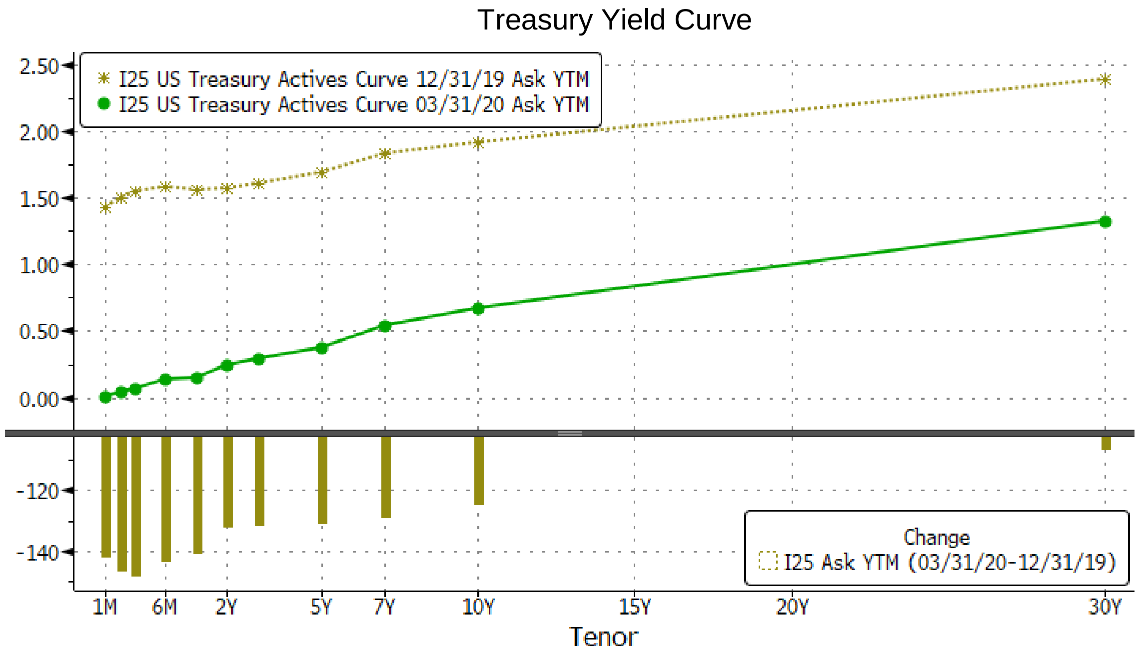
[1] Comparison to the S&P 500 Index and the Bloomberg Barclays U.S. Aggregate Index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives.

[2] Reflects the top contributors and top detractors to the Fund's performance based on contribution to return for the quarter. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. The 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 period 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.

[3] Market peak was February 19, 2020 and the trough was March 23, 2020.

Past performance is no guarantee, nor is it indicative, of future results. Please see end of Commentary for important disclosures.

during the quarter as the Treasury market responded first to the likely arrival of a recession and then to the Federal Reserve's aggressive response.



Source: Bloomberg

Selling pressure in the market for high-quality, short-duration assets exacerbated the price declines and spread increases in AAA-rated asset-backed securities. Some open-end fund managers (not FPA) faced redemptions due to poor performance. In addition, some fund managers (again, not FPA) were forced to sell bonds to raise cash for margin calls on other investments. In times like these, investment managers tend to unload bonds they think they can sell at prices closest to par. That typically ends up being the highest-quality, shortest bonds.

Following a significant increase, spreads began to decline toward the end of the quarter following a new push by the Federal Reserve to improve market liquidity and lower financing costs for borrowers. To do that, the Fed resurrected old programs (e.g., the term asset-backed securities loan facility, or TALF) and announced new programs designed to improve liquidity in the bond market.

Changes to Fundamental Investment Restrictions

We adjourned the Fund's May 11, 2020 Annual meeting of Shareholders to May 22, 2020. On that date, the meeting was reconvened and shareholders approved each of the proposals, including the recommended 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 seeking 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. 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.

We appreciate your careful consideration and approval of these proposals. We believe the additional flexibility should help us as we seek to achieve the Fund’s objective.

Summary

It’s a bit surprising that from where we are today, the stock market is only off 13 percent from its February peak.[4] The world today is more than 13 percent worse than it was then, but the more pertinent question is what the future will look like. 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.

Our philosophy hasn’t changed, and our strategy, although evolved, remains largely unaltered. Sometimes you don’t appear as smart as you are, and other times you look much smarter than you actually are. As we continue to focus on delivering good, risk-adjusted returns, we suspect our clock will be right more than just twice a day.

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[4] Source: Bloomberg, as of April 30, 2020. Market refers to the S&P 500 Index. The S&P 500 Index peak was on February 19, 2020.

We appreciate your trust and patience. While unsettling, we hope for continued volatility in the equity and credit markets as we would love nothing more than to become even more fully invested. From all of us at FPA, we hope you and your family are safe and healthy.

Respectfully submitted,

Source Capital Portfolio Management Team

May 2020

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 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. You should not construe the contents of this document as legal, tax, investment or other advice or recommendations.

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 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, www.fpa.com, 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.

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.

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.

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.

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