



Dear Shareholders:

Performance

During the first quarter of 2018, the net asset value per share return of Source Capital (or the “Fund”) was -0.90%, and -1.52% on a market price basis (both percentages including the reinvestment of the distributions paid during the period). These changes compare with a -0.76% return for the S&P 500 Index, a -1.46% return for the Bloomberg Barclays U.S. Aggregate Bond Index and a -0.97% return for the 60/40 blended S&P 500/ Bloomberg Barclays U.S. Aggregate benchmark during the same period.¹

The Fund’s top five winners and losers for the first quarter of 2018 are presented below. The winners contributed 1.10%, while the losers detracted -1.39%.²

Winners	Performance Contribution	Losers	Performance Contribution
Cisco Systems	0.44%	Arconic	-0.44%
Microsoft	0.24%	American International Group	-0.30%
TE Connectivity	0.16%	Citigroup	-0.26%
Aon	0.14%	WPP	-0.23%
Thermo Fisher Scientific	0.12%	Expedia	-0.16%

Growth continues to outperform Value in the global equity markets. The S&P 500 and MSCI ACWI Growth indexes increased 1.93% and 0.67% respectively during the first quarter. Their value counterparts underperformed (again), with the S&P 500 and MSCI Value indexes declining -3.57% and -2.62% respectively.

Cumulative underperformance since 2007 of S&P 500 Value vs. Growth is approaching the historic underperformance from 1995-2000.

On the fixed income side, treasury yields continued to rise across the yield curve throughout the first quarter. Credit spreads ceased their relentless march lower, at least temporarily, ending the quarter roughly flat compared to the end of 2017. Even though interest rates are higher, the market remains expensive.

Open Market Repurchases

We started the quarter with the market discount to net asset value of 9.54% and ended the quarter with the discount at 10.16%. We repurchased 3,435 shares in the first quarter of 2018 at an average discount of 10.95%. While the number of shares repurchased was modest, it was accretive to shareholders by adding \$0.002 per share to the Fund’s NAV.

As a reminder, Source Capital is authorized to make open-market repurchases of its common stock of up to 10% of the Fund’s outstanding shares at such times as its shares trade at a greater than 10% discount

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, as qualified by this footnote.

to the Fund's net asset value, when in FPA's judgment such repurchases would benefit shareholders, subject to various factors, including the limitations imposed by the federal securities laws governing the repurchase of an issuer's stock by the issuer and the managers' ability to raise cash to repurchase shares in a tax-efficient manner. There is no assurance that Source Capital will purchase shares at any specific discount levels or in any specific amounts.

Respectfully submitted,

Source Capital Portfolio Management Team

April 27, 2018

Important Disclosures

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.

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may vary from the performance quoted. 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 benchmark(s). Overall Fund performance, characteristics and volatility may differ from the benchmark(s) shown.

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 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.sourcecapitalinc.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. 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.

Stock 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.

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

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 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.

Indices are unmanaged, do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. Investors cannot invest directly in an 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.