investors first

Q4 2025 Source Capital Webcast
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Note: Items in brackets [ ] are meant to be clarifying statements but are not part of the actual audio recording of the webcast.

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You should consider Source Capital's ("Fund" or "Source") investment objectives, risks, and charges and expenses carefully before you invest. You can obtain additional information by visiting the website at fpa.com, by email at crm@fpa.com, toll-free by calling 1-800-279-1241, or by contacting the Fund in writing.

(00:00:00)

Moderator: [Please see slide 1] Hello and welcome to today's webcast. Please note that today's webcast is being recorded. During today's call, we will not have a question and answer session. You can ask text questions at any time, and we will respond to you via email in the coming days. Submit your question in the questions and answers panel, and click New Question to submit.

If you would like to view the presentation in a fullscreen view, click the corner of the slides panel to drag and resize to best fit your view. To restore the panels to their original view, click the Restore icon from the icons on the right side of the screen. And finally, should you need technical assistance, as a best practice, we suggest you first refresh your browser. If that does not resolve the issue, please submit your issue in our question and answer panel, and someone will assist you.

It is now my pleasure to turn today's program over to Ryan Leggio. Ryan, the floor is yours.

Ryan: Thanks so much. Good afternoon and thank you, everyone, for joining us for our 2025 Source Capital webcast review. My name is Ryan Leggio. I'm a partner at FPA and VP of Strategy of Source Capital.

You will hear from Steven Romick and Abhi Patwardhan today. Steven joined FPA in 1996 and is a managing partner of the firm. Abhi joined FPA in 2010. Both have been portfolio managers of Source Capital since December 2015.

We remain excited about Source's long-term prospects, and hope you share that sentiment after today's webcast. The Fund's permanent capital, coupled with other key attributes of closed-end funds and FPA's broad investment capabilities in both public and private markets, should enable Source to be one of our best, if not *the* best, publicly available vehicles to deliver attractive risk-adjusted returns over full market cycles.

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As a reminder, we will not take live questions during the webcast but will answer the pre-submitted questions. Still, we are more than happy to connect with any current or potential shareholders in the coming days should you have follow-up questions or comments.

It is my pleasure to turn the call over to Steven Romick.

Steven: Thank you, Ryan, and thank you for taking the time to listen to this brief update on FPA Source Capital closed-end fund.

[Please see slide 2] This slide that you have in front of you shows the Fund's trailing performance as of December 31, 2025 versus its pertinent illustrative indices. Additional details on the Fund, including its performance, holdings, and commentaries can be found in the Source Capital section of FPA's website.

The Fund outperformed the Balanced 60% Global MSCI ACWI and 40% BBG Agg Blended Index in 2025, with an average equity allocation of roughly 40%. We prefer though to focus on more extended timeframes, specifically complete market cycles and rolling 5-year returns. Source's performance stacks up well over the longer term as well.

In recognition of the Fund's strong risk-adjusted performance relative to its peers, Morningstar rates Source Capital as a four-star fund.

We believe the strategy is well-positioned to continue, as Ryan mentioned earlier, delivering attractive risk-adjusted returns over the long term.

[Please see slide 3] Source Capital had an unusually opportunistic—has, not had, we still have it thankfully—has an unusually opportunistic charter that affords tremendous flexibility. As a closed-end fund, it allows for less liquid investments, which serve its goal of balancing capital appreciation and income while endeavoring to avoid permanent impairments of capital or losing money.

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Our use of private credit is an example of our commitment to finding discrete opportunities that offer different, yet still attractive, risk/reward profiles compared to public securities. Source's exposure to private credit, including its committed yet undrawn capital, ended last year at 26.1%, up from 19.5% at the end of 2024. We plan to increase our exposure in the coming years, which should allow us to increase the sustainable distribution rate, all else equal.[1]

[1] Refer to slide 4 of the accompanying webcast slides as well as the commentary below related to slide 4 for additional context related to the potential impact of private credit holdings on the distribution rate of the Fund.

Source's discounted net asset value or NAV remained narrow in 2025, averaging less than 5%, and even traded at a premium to NAV on multiple days. Shareholder-friendly opportunities could open up if the Fund trades at or above NAV. We will show more about this, you know, we'll show more about this should that come to pass.

As of year end, Source's distribution yield [was 5.5%]. Last year's distribution yield was comprised entirely of ordinary income and capital gains, sidestepping any return of capital. We continue to manage distributable income to [seek to] deliver a competitive risk-adjusted distributable yield.

We remain committed to Source's price to trade tightly to NAV over a full market cycle. To accomplish that, we may use several levers, including seeking to increase the Fund's distribution yield and, in certain circumstances, engaging in share repurchases.

Source's portfolio managers and partners at First Pacific Advisors hold sizeable stakes in the Fund, reflecting appropriate alignment with our shareholders.

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[Please see slide 4] We continue to [seek to] take advantage of broad investment options, allocating capital to private and public credit, and equity. The added flexibility of investing in public and private credit opportunities that can, at the right price, successfully rival public equities in their prospective return will hopefully improve the Fund's risk-adjusted returns over time, while allowing for a greater sustainable distributable yield over a full market cycle. If [we determine] the fixed income sector offers more attractive opportunities, the Fund's underlying risk exposure might shift more from equity to debt. We will add leverage to the portfolio when the opportunity presents itself on the fixed income side, and that would be a function of yield, spread, and conviction in the underlying collateral. We may have little to no leverage if such opportunities don't present themselves.

We will continue to return capital to shareholders and repurchase shares at a wide NAV discount to increase investor-level return. All of this should help contribute to the Fund's distributable yield, driving it hopefully higher over time.

[Please see slide 5] I previously mentioned Source's narrower discount to NAV. This chart depicts that favorable trend. The average discount last year was 4.6%, which was significantly lower than the 9% average since 2023 and the 13% average since 2020—or that was *in* 2020. This was the lowest average discount to NAV during a calendar year since Source initiated its discount management program in 2021.

We hope that the successful execution of this strategy over time, combined with shareholder-friendly actions such as high distributions, share repurchases, and proactive client relations efforts, will continue to allow the Fund's discount to trade closer to NAV over full market cycles.

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[Please see slide 6] Source Capital ended 2025 with 44% in equities, 38% in credit, and about 20% in cash. The Fund's gross yield is around 4.2%, which is about 1.5 percentage points higher than the yield of the Global Balanced Index. The portfolio yield has declined slightly from the prior year end, 2024, but that's partly due to good news, given price appreciation in the public credit segment.

We hope to continue increasing the Fund's yield as we improve the Fund's credit book yield, draw down cash, and ultimately add leverage via the established credit line.

[Please see slide 7] This chart provides greater granularity on the private credit sleeve within Source. Private credit exposure would be 26.1%, as I mentioned earlier, if all commitments were drawn. In the current interest rate environment, we have underwritten the Fund's private credit exposure, a mix of private funds and individual loans, to a targeted yield of at least 8%, which is higher than the 6.1% of the High Yield ETF. We also expect less downside and volatility in our private credit investments. Increased exposure, and hopefully good performance in our private credit book, will bolster the Fund's distributable yield.

[Please see slide 8] As an example of what we're doing in asset-based lending, let's show you a direct loan in this space. Source Capital participated in a 3-year, $45 million first lien term loan to a digital media company last year. We underwrote an expected IRR of 11.6%, a much higher yield than the High Yield Index. The loan has collateral conservatively in the $55-$75 million range, placing its loan-to-value at 60%-83%.[2] As important as the value is, our ability to get to that collateral should the company encounter challenges is protected somewhat by cash

[2] **For illustrative purposes only.** This is not intended to be an investment recommendation. The information is solely intended to provide insight into the investment process. As with any investment, there is risk of loss of principal and there is no guarantee that this holding or any holding in the portfolio will be profitable.

sweeps, debt limitations, liquidity covenants, and other protections that we have in place.

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[Please see slide 9] We consider both quantitative and qualitative analysis as we underwrite new investments and monitor existing equity positions. It is not enough to be a great company, nor is it sufficient to trade on a superficially low P/E multiple to garner our interest and attention.

Instead, we are looking for rare cases where both quality and value intersect, even if near-term headwinds may delay the potential payoff. As a result, you will rarely find our recent purchases on the 52-week high list. We ignore the momentum factor, and we regularly troll the 52-week low list for potential opportunities. It is in that vein that we let value guide our focus.

The investment community is currently casting its gaze away from various market constituents that offer asymmetric risk/reward for those willing to look forward 3 to 5 years. We primarily speak of global securities with lower market capitalizations and, up until recently, healthcare stocks.

As you can see from this diagram, new purchases over the past 2 years are clear evidence that we are willing to back up this view with our actions and not just our words. While few of the names you see on this slide are household names, each holds a strong competitive position in their respective industry, if not market leadership. Furthermore, we would go so far as to say we believe we purchased them at absolute values that will allow us to achieve equity-like returns over the coming years, and at bargain-like valuations when compared to the S&P 500.

I'm going to turn it over to Abhi to chat about high yield.

(00:12:01)

Abhijeet: [Please see slide 10] Thank you, Steve. Our comments today on public credit markets will be brief because, unfortunately, the market is very expensive, which means that there's not much to do or say at the moment.

This chart shows the yield and spread on the High Yield Index and the BB component of the High Yield Index excluding energy. We find this BB component to be a useful indicator of high yield market pricing because it offers a somewhat more consistent data point over time.

As shown in this chart on the right-hand side and in the table at the top left, high yield spreads are very low. As of the end of the year, spreads were at the 2nd or 3rd percentile of the available history, which means that historically, 97%-98% of the time, spreads have been higher. This data point corroborates what we've seen when evaluating individual opportunities, where we typically find that the spread available on high yield-rated investments is inadequate for the credit risk. This has been true for several quarters.

Nevertheless, we try to be opportunistic and are happy to invest when we can find an attractive reward for the risk. We made 4 investments for Source in 2025. However, those investments were more than offset by a number of existing investments which fully or partially matured or were called away from us. The net effect is that the exposure decreased, which is fine. We're happy to wait for better opportunities in the portfolio.

That's the end of our prepared remarks. We'll turn it back to Ryan for Q&A.

Steven: [Please see slide 11] I'll start with the Q&A. There's one pre-submitted question that I'll take, then I'm going to pass it off to Ryan for two more. **"Given the current noise and some dislocation going on in the private credit space, does FPA view it as a warning sign or as an opportunity to gain more exposure?"**

(00:13:51)

I think both could be true: a warning sign and an opportunity to increase exposure. The private credit market, by all accounts, has grown significantly in recent years and is now larger than the public high yield market. When money chases an industry, a company, a region, or an asset class, there's often going to be some unfortunate side effects, some breakage. In the case of the massive flow of capital to private credit, this can potentially include bad loans with lower yields, weaker asset or cash flow coverage, and weaker covenants. There's also probably a fair amount of bad marks on loans today, so that we won't know the full extent of the problem for possibly some time.

As the private credit market becomes more challenging though, better loans can be written, with higher yields, greater asset coverage, stronger covenants, etc. Our focus continues to be on asset-based lending, where we believe there will be fewer problematic loans in a downturn than in some of the more dicey, private equity-sponsored, cash flow-based loans that might be more economically sensitive.

Ryan, I'm going to turn it over to you.

Ryan: Thanks, Steven. The question is, **"Is a monthly distribution increase a possibility, or will the focus be on annual capital gain payouts?"**.

The short answer is yes, a monthly distribution increase is possible. And in relation to annual capital gain payouts, the portfolio managers don't really have a focus on annual capital gain payouts. It's really a byproduct of the portfolio decisions that they're making based upon the risk/rewards.

As Steven mentioned earlier, to the extent that we're able to meaningfully increase our private credit exposure, and if Abhi starts finding more opportunities on his side of the ledger, then yes, an increase in the monthly distribution rate is a possibility. I will note that before we make any monthly distribution increase, we think a lot about, as Steven mentioned earlier, the sustainability of that distribution; and the portfolio managers as well as the board must sign off on any increased monthly distribution.

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If you have any more questions on this topic, I would be more than happy to talk to you offline about it.

The other question we received was, **"Is there any consideration to convert Source into an ETF?"**.

The short answer today is no, and I'll list a few of the considerations. First is the extent to which Source is capitalizing on illiquid and less liquid opportunities, which is far greater than 15%. And as Steven mentioned, we hope to actually increase the amount not only invested but committed to private credit and other illiquid assets that are appropriate for Source in the years to come.

Second is that feedback from our clients over the last few years have really showed us how much they value us taking advantage of the permanent capital nature of Source, and obviously that would be much different, much, much different if we converted Source to an ETF.

The third consideration is the trading price of the Fund over the last few years, and especially recently, as the Fund has been trading closer to NAV, above NAV on certain days, and our goal is to continue to have the Fund trade near net asset value over full market cycles—again, as Steven mentioned earlier.

And then the fourth thing I would mention, since the topic of ETFs came up so you're allowing me to mention it, is FPA actually already manages two ETFs today. Those ETFs are on our website: FPAG managed by Brian Selmo and Mark Landecker, and FPAS managed by Abhi, so one equity ETF and one fixed income ETF. Those are on our website and so if you would like to learn more about that, please go to our website.

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Those were all of the pre-submitted questions that we received. If we missed your question or if you have additional questions, my contact information is on the slide in front of you. You can also reach out to your FPA relationship representative or crm@fpa.com if you don't know who your FPA representative it. But we are more than happy to take follow-up or additional questions at any time throughout the year.

With that, that's all we have. Oh, I guess we did get one question on, "**What FPA mutual fund is most similar to Source?"**. I guess I'll answer that since we only had one, even though we said we weren't going to take pre-submitted questions just for simplicity for everyone.

So, I think this is a much more lengthy conversation, but I think the first thing I would say is there's really no mutual fund like Source that FPA manages today. Certainly in terms of everything we're doing on the equity side, everything we're doing on the fixed income side, not only with Steve, Mark, and Brian, but also with Abhi and his team, and certainly nothing in terms of any of our public funds, taking advantage of the private credit space. So really, Source is a one-of-one from that standpoint.

But in terms of an ability to invest across multiple asset classes, and in terms of the broad-based asset allocation and the long-term goals that we have in the portfolio, I think it's fair to say that the closest fund we have, mutual fund in this question specifically, in terms of Source with asset classes, goals, etc. is likely FPA Crescent because the other strategies that Abhi manages are exclusively or almost exclusively focused on fixed income securities. And yes, our other mutual funds are more or less fully exclusive on equity securities. So this is, Crescent is really the only other fund that can invest in a wide array of assets and that has a, you know, somewhat similar long-term goal.

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I hope that directionally points you in the right direction, but there's clearly more to that, and I'm happy to talk about more of that offline.

With that, I'm now double-checking, that is the only question we've received so if we missed your question or you have additional questions, you see the contact information. With that, I'll turn it over to our—back to our system moderator. Thank you so much for joining us today, and we look forward to reconnecting with a lot of you soon.

Moderator: [Please see slides 12-15] Thank you for your participation in today's webcast. We invite you, your colleagues, and shareholders to listen to the playback of this recording and view the presentation slides that will be available on our website, typically within a few weeks, at fpa.com. We urge you to visit the website for additional information about the Fund, such as complete portfolio holdings, historical returns, and after-tax returns.

Following today's webcast, you will have the opportunity to provide your feedback and submit any comments or suggestions. We encourage you to complete this portion of the webcast. We know your time is valuable, and we do appreciate and review all of your comments.

Please visit fpa.com for future webcast information, including replays. We post the date and time of upcoming webcasts towards the end of each current quarter, and webcasts are typically held three to four weeks following each quarter end. If you did not receive an invitation by email for today's webcast and would like to receive them, please email us at crm@fpa.com.

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We hope that our quarterly commentaries, webcasts, and special commentaries will continue to keep you appropriately informed on the strategies discussed today.

We do want to make sure you understand that the views expressed on this call are as of today, and are subject to change without notice, based on market and other conditions. These views may differ from other portfolio managers and analysts at the firm as a whole and are not intended to be a forecast of future events, a guarantee of future results, or investment advice.

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

Any mention of individual securities or sectors should not be construed as a recommendation to purchase or sell such securities or invest in such sectors, and any information provided is not a sufficient basis upon which to make an investment decision. It should not be assumed that future investments will be profitable or will equal the performance of the security or sector examples discussed.

The returns described for Source Capital are calculated at net asset value per share including reinvestment of all distributions unless stated otherwise. 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.

On December 1, 2015, the Fund transitioned to a balanced strategy and the current portfolio managers assumed management of the Fund on that date. Performance prior to December 1, 2015 reflects the performance of the prior portfolio manager and investment strategy.

Performance prior to December 1, 2015 is not indicative of performance for any subsequent periods.

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Any statistics or market data mentioned during this webcast have been obtained from sources believed to be reliable, but the accuracy and completeness cannot be guaranteed.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest.

You can obtain additional information about the Fund by visiting the website at fpa.com, by email at crm@fpa.com, toll-free by calling 1-800-982-4372, or by contacting the Fund in writing.

This concludes today's call. Thank you and enjoy the rest of your day.

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