Q4 2024 Source Capital Webcast
February 25, 2025

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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 (option 1), or by contacting the Fund in writing.

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Moderator: Please note that today's webcast is being recorded. 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. Thank you for joining us today, everyone, for our annual Source Capital webcast. I notice a few very long-time shareholders on the call. It's nice to have you on. My name is Ryan Leggio. I'm a partner at FPA and I help lead Client Relations.

Momentarily, you will hear from Steven Romick and Abhi Patwardhan. Steven joined FPA in 1996 and is a managing partner at the firm. He apologizes for coughing just now. Abhi joined in 2010 and is also a partner at the firm. Both have been portfolio managers of Source Capital since December 2015.

We remain really excited about Source's long-term prospects, and hope you share that sentiment after today's webcast.

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

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[Please see slide 2] This slide shows the Fund's trailing performance as of December 31, 2024 versus its pertinent illustrative indices. Additional details on the Fund, including performance, holdings, and commentaries can be found in the Source Capital section of FPA's website.

While we prefer to focus on complete market cycle and rolling 5-year returns, 2024 was another good year for Source Capital, in both absolute and on a relative basis. During the year, the Fund outperformed the Balanced 60% Global MSCI All-Country World Index and 40% Bloomberg Aggregate Blended Index with a roughly 40% allocation to equities on average throughout the year.[1]

In 2024, Source maintained a 20.8 cent per month fund distribution, equating to approximately a 5.75% unlevered distribution rate based on the Fund's year end closing price.

In recognition of the Fund's good risk-adjusted performance compared to its allocation peers, Morningstar rates Source Capital as a five-star fund.[2] We believe the strategy is well-positioned to continue to deliver attractive risk-adjusted results over the long term.

[1] Comparison to an index is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in their investment objectives. An investor cannot invest directly in an index.

[2] Source: Morningstar as of 12/31/2024. **Morningstar Moderate Allocation** portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger positions in stocks than conservative-allocation portfolios. These portfolios typically have 50% to 70% of assets in equities and the remainder in fixed income and cash. As of December 31, 2024, there were 6 funds in the category.

Morningstar Rating: The Morningstar Rating™ for funds, or "star rating", is calculated for funds and separate accounts with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. For more information about the Morningstar Rating for funds, including its methodology, please go to global.morningstar.com/managerdisclosures/. Source Capital was rated against the following numbers of the Moderate Allocation Category funds over the following time periods: 6 funds in the last three years (Category Rank 1%), 6 funds in the last five years (Category Rank 1%), and 6 funds in the last ten years (Category Rank 60%). Past performance is no guarantee of future results.

At this time, it is my pleasure to turn the call over to Steven Romick. Steven.

Steven: [Please see slide 3] Thank you, Ryan, and thank all of you for listening to this brief update on FPA's Source Capital closed-end fund.

Source Capital is a very opportunistic fund with tremendous flexibility. Its closed-end charter allows for less liquid investments, which was in the service of its goal of balancing capital appreciation and income while being mindful of the downside, that is, a permanent impairment of capital. Source's discount to net asset value, or NAV, remained narrow in 2024, averaging less than 6%.

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As of year end, its distribution yield was an attractive 5.75%. Last year's yield was comprised entirely of ordinary income and capital gains, that is, no return of capital. We continue to manage distributable income to a level that delivers a competitive risk-adjusted distributable yield.[3]

One of the benefits of managing a closed-end fund is that we can invest in less liquid securities that offer a different, yet attractive,

[3] Future 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." 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. Past performance is not a guarantee, nor is it indicative, of future results.

risk/reward profile compared to public securities. Using public credit is an example of that. The Fund's exposure to private credit, including its commitments, remained elevated in 2024, closing the year at 19.5% versus 28.8% at the end of '22.

We remain committed to the Fund trading at a small NAV discount over a complete market cycle. To accomplish that, we may use several levers, including looking for ways to increase the Fund's distribution yield and, in certain circumstances, share repurchases. Source's portfolio managers and partners at FPA own over $2 million, reflecting appropriate alignment with our shareholders.[4]

[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 will hopefully improve the Fund's risk-adjusted returns while allowing for a greater sustainable distributable yield over a full market cycle. If the fixed income sector offers more attractive opportunities, the Fund's underlying risk exposure may shift from equity to debt. We will add leverage to the portfolio when the opportunity presents itself on the fixed income side, and

[4] As of December 31, 2024.

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 exist.

We will continue to return capital to shareholders and repurchase shares at a wide NAV discount to increase investor level of return. All of this should help drive the Fund's distributable yield higher.

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[Please see slide 5] At the top of my remarks, I mentioned Source's narrow discount to NAV. This chart depicts that favorable trend. The average discount last year was 5.88%, significantly lower than the [approximate] 9% average in '23 and the [approximate] 13% average in 2020. We hope that the successful execution of the strategy over time, combined with our shareholder-friendly actions such as high dividends and share repurchases, will continue to allow the Fund's discount to trade closer to NAV over full market cycles.

[Please see slide 6] We show year end positioning, you know, in this slide. Source Capital ended 2024 with 41% in stocks, 39% in credit, and about 20% in cash.

The Fund’s gross yield was around 4.6%, which is 1.6 percentage points higher than the yield of the Global Balanced Index.[5] The portfolio yield has declined slightly from the prior year end in ’23, but that's partly due to good news, given price appreciation in the public credit segment.

We continue increasing the Fund’s yield as we increase the yield of the Fund’s credit book, draw down the cash, and ultimately add leverage via the established credit line.

[Please see slide 7] Stocks aren't cheap, especially in the US, as depicted here. US stocks trade at [approximately] 22 times [forward] earnings, which places them in the 94th percentile. Such a rich valuation helps explain Source’s relatively low equity allocation. The rest of the world trades less expensively, at or below their average, though that does not distinguish between the quality of business or industry sector, and the US market ranks higher on both counts. Nevertheless, the valuation gap between the US and ex-US is about as wide as it’s been since 2000.

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[Please see slide 8] This chart offers more granularity concerning the private credit sleeve within Source. In the current rate environment, we have underwritten the Fund’s private credit exposure, a mix of private

[5] The Global Balanced Index is represented by a hypothetical combination of unmanaged indices comprised of 60% MSCI ACWI and 40% Bloomberg U.S. Aggregate Bond Index. Past performance is no guarantee, nor is it indicative, of future results.

funds and individual loans, to a targeted yield of at least 8%, which is higher than the 6.9% [30-day SEC yield] of the [iShares iBoxx] High Yield ETF.[6] We also expect there should be less downside and volatility in our private credit investments. Private credit exposure would be 19.5% if all commitments were drawn. [We expect this] increased exposure, and hopefully good performance in our credit book, will bolster the Fund's distributable yield.

[Please see slide 9] Given the greater allocation of private credit, we would like to run through an example to give you a better idea of how we are executing on our strategy. We have curated a portfolio of differentiated private credit managers, including a new commitment to this $260 million real estate lender. Since 2012, this firm has successfully bought and originated bridge and distressed senior secured real estate loans across residential, multifamily, and small commercial office real estate markets in the Southeastern US. From its inception through Q3 last year, it deployed $445 million across 129 investments with only one small loss. We have underwritten a mid-teens rate of return for our aggregate investment with them. Source committed $14 million, which is about a 4%

[6] As of December 31, 2024. Targeted returns are no guarantee of future results. It should not be assumed that such investments will be profitable or will equal the performance of the financial instrument or sector examples discussed.

position in the Fund, and we hope to have co-investment opportunities with them over time.

[Please see slide 10] One of our private credit investments paid off in Q4 [2024]. In April of ’23, we co-invested in an accounts receivable credit facility of the second-largest fuel refinery in the UK. Quality credits collateralized these accounts receivable, including those of national transportation companies, international oil companies, and some airlines. Adding an additional layer of protection, [an A1/A+ rated UK insurance company provided] additional support in the form of credit insurance against the entire receivables portfolio.

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[With the combination of the collateral and credit insurance in place,] we were happy to be invited to participate in the loan that we underwrote to a gross 12.75% yield to maturity. The company’s business improved, allowing them to refinance our loan, which they took us out of last October, in line with our underwriting expectations, netting the Fund an 11.9% IRR.[7]

[7] Past performance is no guarantee, nor is it indicative, of future results. **For illustrative purposes only.** This investment example was chosen as it was the most recent realized loan in the portfolio, and it was not chosen based on performance. The information is solely intended to provide insight into the investment process. The information provided is not a sufficient basis upon which to make an investment decision. A full list of the Fund’s holdings as of 12/31/2024, including its private credit investments, can be found on the FPA website at https://fpa.com/docs/default-source/funds/fund-holdings/source-capital-holdings-2024-12.pdf?sfvrsn=14cf9e9d_3.

I’m going to turn it over to my partner Abhi to chat about what he and his team are seeing in the public credit market. Abhi.

Abhijeet: [Please see slide 11] Thank you, Steven. Echoing Steven’s comments from earlier, public credit markets are not cheap. Spreads have been increasing for several quarters.

This chart shows the yield and spread on the High Yield Index and the BB component of the index excluding energy. We find that this BB component is a more consistent indicator of high yield market pricing over time because it removes some of the impact of composition changes in the overall index.

Over the past 12 months, the spread on the High Yield Index has decreased from 346 basis points to 313 basis points, and the spread on this BB index shown here has decreased from 228 basis points to 200 basis points. Shown on the right side of this chart, as of year end, spreads on the High Yield Index were at the 4th percentile and spreads on this BB component were at the 5th percentile. The lower the percentile, the more expensive the market is.

Not shown is that the decrease in spreads was more significant for lower credit-quality debt. For example, one measure of CCC bonds saw spreads decrease by approximately 200 basis points over the past year.

We don’t invest based on charts like this, but this is an indication of what we've been seeing when we evaluate individual investments.

Yields on high yield and other lower-rated debt are near levels that we've seen only a few times in the past 15 or so years, but much of that yield is coming from generationally high risk-free rates.[8]

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Our eyes are drawn to attractive headline yields, but we typically find that those spreads don’t offer enough compensation above risk-free rates to compensate us for the credit risk. As a result, we have not deployed much capital in public credit investments. In fact, over the past 12 months, we have added only approximately 80 basis points of exposure to the portfolio. Meanwhile, the decrease in spreads has created an opportunity for issuers to refinance debt that was issued in prior years when spreads were much higher. Consequently, a lot of our investments which we had made during those periods of higher spreads left the portfolio in the past year. Approximately 5% of the portfolio was called by issuers in the past 12 months and not replaced. In addition, we sold investments representing approximately 2.5% of the portfolio because

[8] Risk-free rate source: Federal Reserve Bank of St. Louis (https://fred.stlouisfed.org/)

spreads decreased to a level where the prospective returns were no longer attractive [to the Fund].

The net result is that the [Fund's] overall exposure to public credit has decreased. Stepping back, this makes sense as one would expect to own less exposure when the market is expensive. Going forward, we expect that this positioning will leave us well-placed to opportunistically invest if and when pricing becomes more attractive.

Ryan, over to you.

Ryan: [Please see slide 12] Thanks, Steven and Abhi. We'll now answer the pre-submitted questions. We only received two pre-submitted questions. If we missed your question or if you have additional questions after the webcast, please feel free to either email me personally, which my website is on the screen right now, you can email our general email mailbox which is crm@fpa.com, or you can email your FPA representative.

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The first question we received was: **"What did management do in the fourth quarter of 2024 to close the discount to almost par?"**

Well, we appreciate the question and, as Steven mentioned earlier, we’re really proud of the work we've done in terms of narrowing the discount to NAV over the last few years.

The short answer is we don’t know for sure but let me offer a few observations, and let me start with what we didn’t do. In the fourth quarter of 2024, there were no share repurchases given the meager discount to NAV over that period.

What did happen in the fourth quarter of 2024? I offer three observations.

The first is, we've been talking to a lot of clients and prospective clients about Source over the last few years, and we've continued that work last year and into this year. In addition, I attended a CEF—closed-end fund-only—conference at the end of last year to help further get the word out.

The second thing I’d mention, which I mentioned at the beginning of the webcast, is I think a lot of shareholders are beginning to appreciate both the strong absolute performance and risk-adjusted performance, and that's not only just over the last year but if you look over the last three years, Source’s risk-adjusted returns and high sustainable distribution yield have been really compelling to a lot of investors as we've talked to them.

The last thing I would mention—but this really would only encompass the last few weeks of the quarter—is we did announce, as we've done in the last few years, a special distribution around December 23, for shareholders of record December 30, so that may explain part of the trading action the last few weeks of the year.

The second question we received was a question about the bid-ask spread of Source Capital.

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So the first thing I would mention is as we've gotten to know the shareholders of Source better over the last few years, it’s clear that many shareholders have owned Source not only more than the 3 to 5 years we recommend for Source shareholders, but I’ve talked to many shareholders who have owned Source for over a decade. And so the trading activity of Source is maybe less than you would expect for a 365-odd million dollar closed-end fund that's only been around the last few years and that may have a mandate with shareholders that, frankly, churn their portfolio more often than Source shareholders do.

The second observation I would make is, while Source often trades more than $400,000 in any given day, we've talked to shareholders who have been able to successfully purchase hundreds of thousands of dollars in stock of Source in any given day using their institutional trading desk. And so, for those financial advisors on the line, I'd highly encourage you to reach out to the institutional trading desk on your platform that is used to trading closed-end funds, and they can really help you get best pricing from a market impact perspective.[9]

Again, if you have any other questions and would like to talk through this, I am available and please feel free to reach out to me.

So those were the only two questions we received in advance. Again, if we missed your question or if you have additional questions, we'd love to hear from you. And with that, we would like to thank everyone for joining our annual Source webcast today, and we'll turn the call back over to the moderator for closing disclosures. Have a great day, everyone.

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Moderator: [Please see slides 13-16] 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

[9] Source: Bloomberg. Average daily trading volume of all shares was 12,672 in 2024.

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.

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.

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.

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

As with any stock, the price of the Fund’s common shares will fluctuate with market conditions and other factors. Shares of the

Fund may trade at a price that is less than a discount or more than a premium of its net asset value.

You can obtain additional information about the Fund by visiting the website at fpa.com, by email at crm@fpa.com, tollfree 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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