



SOURCE CAPITAL, INC.

FIRST QUARTER REPORT

March 31, 2016

SOURCE CAPITAL, INC.

LETTER TO SHAREHOLDERS

Investment Results

During the first quarter of 2016, the net asset value per share of Source Capital (or the “Company”) increased 0.49% and on a market price basis increased 3.77% (both percentages including the reinvestment of the distributions paid during the period). These changes compare with a 1.35% return for the S&P 500 Index, a 3.03% return for the Barclays U.S. Aggregate Bond Index and a 2.11% increase for the 60/40 blended S&P 500/ Barclays U.S. Aggregate benchmark during the same period.

Source Capital’s top five winners and losers for the first quarter of 2016 are presented below. The winners contributed 1.20%, while the losers detracted 0.90%.

<u>Q1 2016 Winners¹</u>	<u>Q1 2016 Losers¹</u>
Oracle	Citigroup
Aon	Bank of America
United Technologies	American International Group
Cisco Systems	American Express
Analog Devices	Scansource

Distributions

On February 8, 2016, the Board of Directors declared a special long-term capital gain distribution in the amount of \$33.65 per share. The Board of Directors also declared a regular quarterly distribution of \$0.41 per share. These combined amounts were payable on March 15, 2016 to shareholders of record on February 20, 2016. As previously communicated, the transition of the portfolio that commenced on December 1, 2015 resulted in the realization of significant capital gains. The amounts paid on March 15, 2016 substantially complete distributions related to the transition of the portfolio.

Our discussion in Source Capital’s Annual Report noted that we would set the current quarterly distribution at an annualized rate of approximately 4.5% of net assets. We expect that Source Capital will make quarterly distributions at approximately this rate for the first three quarters of 2016. However, if the equity markets are weak, we expect that the distribution rate will decline in the fourth quarter to less than 2%, a level more commensurate with dividend and interest income. Our investment results will ultimately determine the rate paid. On May 9, 2016, the Board of Directors declared the second quarter distribution of \$0.41 per share, payable June 15, 2016 to shareholders of record on May 20, 2016.

Dividend Reinvestment Plan

We wish to thank the participants in the Source Capital Dividend Reinvestment Plan for their patience. Our task was challenging. Source Capital only has 8.5 million shares of stock outstanding yet we needed to acquire nearly 1 million shares of stock for Plan participants. Beginning our reinvestment purchases on the payable date of March 15, 2016, it took us almost six weeks to complete, and again we thank you for your patience.

Open Market Repurchases

We started and ended the quarter with the market discount to net asset value at about 9%, and Source Capital did not make any open-market repurchases of its common stock during the

¹ Reflects the top contributors and top detractors to the Company’s performance based on contribution to return for the quarter, as qualified by this footnote.

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

Portfolio Update

We have substantially completed the transition of Source Capital's portfolio that started on December 1, 2015. On the following pages you will see that as of March 31, 2016, net assets were \$337,755,203 with 56% of net assets invested in common stocks, 38% invested in fixed income, and the remaining 6% in cash and equivalents. Further, the top ten holdings accounted for 36% of net assets. Please visit our website, www.sourcecapitalinc.com, for a complete list of portfolio holdings, the investment policy statement, commentaries and other Source Capital-related announcements.

We thank you for your continued support.

Respectfully submitted,

Source Capital Portfolio Management Team
April 27, 2016

The discussion of Company investments represents the views of the Company's managers at the time of this report and are subject to change without notice. References to individual securities are for informational purposes only and should not be construed as recommendations to purchase or sell individual securities. While the Company's managers believe that the Company's holdings are value stocks, there can be no assurance that others will consider them as such. Further, investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform growth stocks during given periods.

The Russell 2500 Index is an unmanaged index comprised of the 2,500 smallest companies in the Russell 3000 Index. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The S&P 500 Index is an index of 500 companies with large market capitalization.

FORWARD LOOKING STATEMENT DISCLOSURE

As managers, one of our responsibilities is to communicate with shareholders in an open and direct manner. Insofar as some of our opinions and comments in our letters to shareholders are based on our current expectations, they are considered "forward-looking statements," which may or may not prove to be accurate over the long term. While we believe we have a reasonable basis for our comments and have confidence in our opinions, actual results may differ materially from those we anticipate. You can identify forward-looking statements by words such as "believe," "expect," "may," "anticipate," and other similar expressions when discussing prospects for particular portfolio holdings and/or the markets, generally. We cannot, however, assure future results and disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. Further, information provided in this report should not be construed as a recommendation to purchase or sell any particular security.

10 LARGEST HOLDINGS

March 31, 2016
(Unaudited)

	<u>Percentage of Net Assets</u>
Oracle Corporation	6.21%
Aon plc (Britain)	4.55%
United Technologies Corporation	4.01%
American International Group, Inc.	3.60%
Citigroup, Inc.	3.30%
Alcoa, Inc.	3.29%
Cisco Systems, Inc.	3.17%
Microsoft Corporation	3.13%
TE Connectivity, Ltd.	2.57%
Bank of America Corporation	<u>2.25%</u>
Total	<u><u>36.08%</u></u>

SOURCE CAPITAL, INC. PORTFOLIO SUMMARY

March 31, 2016
(Unaudited)

Common Stocks		56.3%
Infrastructure Software	9.3%	
Diversified Banks	5.5%	
Insurance Brokers	4.5%	
Aircraft & Parts	4.0%	
Base Metals	3.7%	
P&C Insurance	3.6%	
Communications Equipment	3.2%	
Semiconductor Devices	2.7%	
Electrical Components	2.6%	
Internet Media	2.4%	
Consumer Finance	2.2%	
Electrical Power Equipment	2.1%	
Advertising & Marketing	1.9%	
Investment Companies	1.7%	
Life Science Equipment	1.5%	
Exploration & Production	1.5%	
Household Products	1.5%	
Integrated Oils	1.0%	
Oil & Gas Services & Equipment	0.7%	
Food & Drug Stores	0.6%	
Banks	0.1%	
Bonds & Debentures		37.6%
Asset-Backed Securities	17.3%	
Residential Mortgage-Backed Securities	7.3%	
U.S. Treasuries	6.4%	
Commercial Mortgage-Backed Securities	5.0%	
Corporate Bonds & Notes	1.0%	
Corporate Bank Debt	0.5%	
Municipals	0.1%	
Short-term Investments		5.9%
Other Assets And Liabilities, Net		0.2%
Net Assets		<u>100.0%</u>

SOURCE CAPITAL, INC.
COMPOSITION OF NET ASSETS*

March 31, 2016

Investment securities (cost \$319,125,610):	
Common stocks	\$190,066,884
Bonds, debentures and other investments	126,989,600
	<u>\$317,056,484</u>
Cash, receivables, short-term corporate notes, less liabilities	20,698,719
Net assets at March 31, 2016	<u>\$337,755,203</u>

SUMMARY FINANCIAL INFORMATION*

	Three Months Ended March 31, 2016	
	Total Net Assets	Per Common Share
Beginning of period	<u>\$ 632,454,012</u>	<u>\$ 73.07</u>
Net loss on investments, realized and unrealized	\$ (243,010)	\$ (0.03)
Net investment income	341,675	0.04
Distributions to Common shareholders	(294,797,474)	(34.06)
Net changes during period	<u>\$(294,698,809)</u>	<u>\$(34.05)</u>
End of period	<u>\$ 337,755,203</u>	<u>\$ 39.02</u>
	Beginning of Quarter	End of Quarter
Common market price per share	\$66.26	\$35.62
Common market discount from net asset value	9.32%	8.71%

** The financial information included in this report has been taken from the records of the Company without examination by independent auditors. Securities are carried at fair value.*

SOURCE CAPITAL, INC.

OFFICERS AND DIRECTORS



DIRECTORS

Allan M. Rudnick, *Chairman*
Mark L. Lipson
Thomas P. Merrick
Alfred E. Osborne, Jr.
A. Robert Pisano
Patrick B. Purcell

OFFICERS

Steven Romick, *Portfolio Manager*
Mark Landecker, *Portfolio Manager*
Brian Selmo, *Portfolio Manager*
Thomas H. Atteberry, *Portfolio Manager*
Abhijeet Patwardhan, *Portfolio Manager*
J. Richard Atwood, *President*
Leora R. Weiner, *Chief Compliance Officer*
E. Lake Setzler III, *Treasurer*
Francine S. Hayes, *Secretary*
Michael P. Gomez, *Assistant Vice President*

INVESTMENT ADVISER

First Pacific Advisors, LLC
11601 Wilshire Blvd., Suite 1200
Los Angeles, California 90025
(800) 982-4372 or (310) 473-0225

CUSTODIAN AND ADMINISTRATOR

State Street Bank and Trust Company
Boston, Massachusetts

LEGAL COUNSEL

Dechert LLP
San Francisco, California

TRANSFER AND SHAREHOLDER SERVICE AGENT AND REGISTRAR

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
(800) 279-1241 or (718) 921-8124
www.amstock.com

STOCK EXCHANGE LISTING

New York Stock Exchange: SOR

SOURCE CAPITAL, INC.

11601 Wilshire Boulevard, Suite 1200
Los Angeles, California 90025