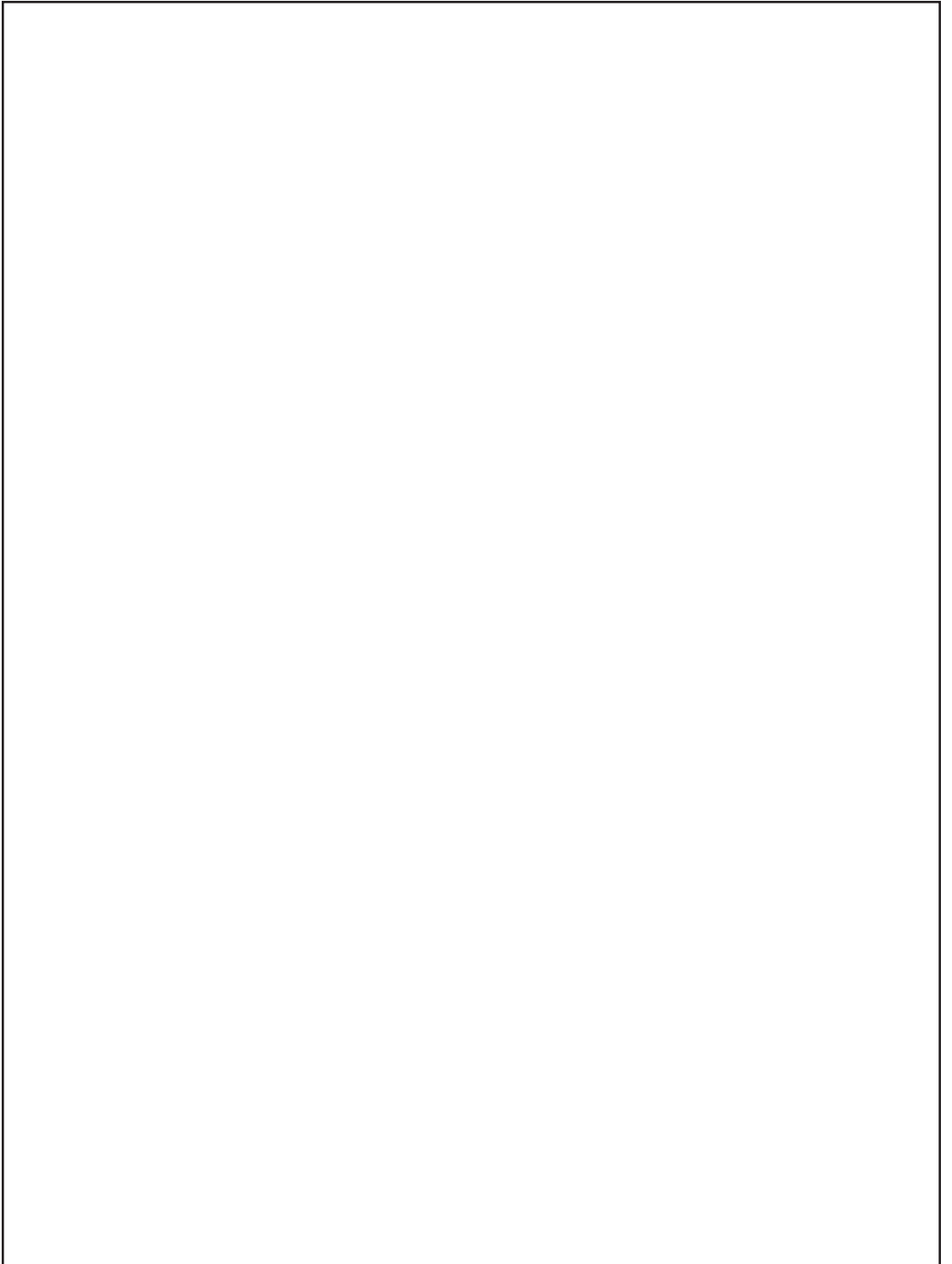




**SOURCE CAPITAL, INC.**

***FIRST QUARTER REPORT***

***March 31, 2017***



# SOURCE CAPITAL, INC.

## LETTER TO SHAREHOLDERS

### DEAR SHAREHOLDERS:

#### Performance

During the first quarter of 2017, the net asset value per share of Source Capital, Inc. (the “Fund”) increased 4.15% and on a market price basis increased 5.45% (both percentages including the reinvestment of the distributions paid during the period). These changes compare with a 6.07% return for the S&P 500 Index, a 0.82% return for the Barclays U.S. Aggregate Bond Index and a 3.95% increase for the 60/40 blended S&P 500/ Barclays U.S. Aggregate Bond benchmark during the same period.

Source Capital’s top five winners and losers for the first quarter of 2017 are presented below. The winners contributed 2.57%, while the losers detracted -0.41%.<sup>1</sup>

<u>Winners</u>	<u>Performance Contribution</u>	<u>Losers</u>	<u>Performance Contribution</u>
Arconic Inc	0.92%	American International Group Inc	-0.15%
Oracle Corp	0.76%	Qualcomm Inc	-0.09%
Cisco Systems Inc	0.36%	General Electric Company	-0.08%
Bank of America Corp	0.26%	Gazprom OAO	-0.05%
Alcoa Corp	0.26%	Lukoil OAO	-0.03%

Unlike the financial sector that dominated Source Capital’s 2016 returns, there wasn’t any one sector that was an unusual driver of performance year to date. However, Arconic was one company that did stand out, increasing 42.41% during the quarter, which added 0.92% to the Fund’s first-quarter return.

Arconic’s recent stock price performance was neither a function of great industry fundamentals nor of the company successfully executing on plan. In our view, it was more a function of Elliott Management Corp., an activist investor, seeking a change in leadership.<sup>2</sup> We would view such a change favorably as well.

One of the Fund’s portfolio managers, Brian Selmo, recently authored a letter to Arconic’s Board of Directors, expressing our disappointment with both the company’s board and management given their collective failure to manage the business and deliver shareholder value. Their destructive action (and inaction) left us little alternative but to publicly voice our opinion. That letter is available on our website: [www.fpfunds.com](http://www.fpfunds.com).<sup>3</sup>

AIG’s fourth quarter results were disappointing, which caused its stock price to decline -3.44% during the first quarter, detracting -0.15% from the Fund’s performance in the period. However, AIG’s share price has increased slightly more than 20% in the trailing twelve month period. The company took an additional reserve to account for poorly underwritten Property & Casualty policies. Nevertheless, we were heartened to see that the board held management accountable and removed the CEO. We continue to hold our AIG stake that trades at just 0.83x tangible equity.

<sup>1</sup> Reflects the top contributors and top detractors to the Fund’s net asset value performance based on contribution to return for the quarter, as qualified by this footnote. The fifth largest detractor is a position for which the name of the issuer and of the issue is not required to be disclosed under applicable regulatory requirements. Accordingly, we have excluded that position from the chart and presented the sixth largest detractor in its place. The top five losers including the undisclosed position detracted -0.42%

<sup>2</sup> <http://newarconic.com/>.

<sup>3</sup> <http://www.fpfunds.com/docs/special-commentaries/arconic-board-letterfeb-2017.pdf?sfvrsn=2>

## **Open Market Repurchases**

We started the first quarter with the market discount to net asset value of 12.57% and ended the quarter with the discount at 11.56%. We repurchased 15,604\* shares in the first quarter of 2017 at an average discount of 12.41%\*. While the number of shares purchased was modest, it was accretive to shareholders by adding \$ 0.009\* per share to the Fund's NAV and 0.01% to the Fund's net asset value return for the quarter.

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 the Fund's shares trade at a greater than 10% discount 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.

A more encompassing shareholder letter about Source Capital and the markets in general will be published midyear.

Respectfully submitted,  
Source Capital Portfolio Management Team  
April 27, 2017

\*These amounts were corrected subsequent to the printing of the First Quarter Report. These amounts were originally reported as 6,850 shares, 12.52% and \$0.004, respectively.

The discussion of Fund investments represents the views of the Fund'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 Fund's managers believe that the Fund'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 S&P 500 Index is an index of 500 companies with large market capitalization. The Barclay's U.S. Aggregate Bond Index is an unmanaged index that is generally considered to be representative of U.S. bond market activity.

## **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.

**SOURCE CAPITAL, INC.**  
**10 LARGEST HOLDINGS**

March 31, 2017  
(Unaudited)

	<u>Percentage of Net Assets</u>
Oracle Corporation .....	5.29%
United Technologies Corporation .....	4.14%
Citigroup, Inc. ....	3.92%
American International Group, Inc. ....	3.82%
Aon plc (Britain) .....	3.72%
Bank of America Corporation .....	3.65%
Microsoft Corporation .....	3.05%
Arconic, Inc. ....	2.96%
Cisco Systems, Inc. ....	2.77%
TE Connectivity, Ltd. (Switzerland) .....	<u>2.61%</u>
Total	<u><u>35.93%</u></u>

# SOURCE CAPITAL, INC. PORTFOLIO SUMMARY

March 31, 2017  
(Unaudited)

<b>Common Stocks</b> .....		<b>57.1%</b>
Infrastructure Software .....	8.3%	
Diversified Banks .....	7.6%	
Aircraft & Parts .....	7.1%	
Internet Media .....	4.3%	
P&C Insurance .....	3.8%	
Insurance Brokers .....	3.7%	
Semiconductor Devices .....	3.0%	
Communications Equipment .....	2.8%	
Electrical Components .....	2.6%	
Investment Companies .....	1.8%	
Advertising & Marketing .....	1.7%	
Consumer Finance .....	1.7%	
Base Metals .....	1.5%	
Electrical Power Equipment .....	1.5%	
Life Science Equipment .....	1.4%	
Other Common Stocks .....	1.3%	
Integrated Oils .....	1.2%	
Food & Drug Stores .....	0.8%	
Household Products .....	0.7%	
Exploration & Production .....	0.3%	
<b>Bonds &amp; Debentures</b> .....		<b>35.6%</b>
Asset-Backed Securities .....	21.4%	
Residential Mortgage-Backed Securities .....	5.6%	
Commercial Mortgage-Backed Securities .....	5.5%	
U.S. Treasuries .....	1.3%	
Corporate Bank Debt .....	1.0%	
Corporate Bonds & Notes .....	0.7%	
Municipals .....	0.1%	
<b>Short-term Investments</b> .....		<b>8.7%</b>
<b>Other Assets And Liabilities, Net</b> .....		<b><u>(1.4)%</u></b>
<b>Net Assets</b> .....		<b><u><u>100.0%</u></u></b>

**SOURCE CAPITAL, INC.**  
**COMPOSITION OF NET ASSETS\***

March 31, 2017

Investment securities (cost \$308,363,018):	
Common stocks .....	\$209,024,574
Bonds, debentures and other investments .....	130,870,857
	<u>\$339,895,431</u>
Cash, receivables, short-term corporate notes, less liabilities .....	26,505,640
Net assets at March 31, 2017 .....	<u>\$366,401,071</u>

**SUMMARY FINANCIAL INFORMATION\***

	Three Months Ended March 31, 2017	
	Total Net Assets	Per Common Share
Beginning of period .....	<u>\$ 355,331,230</u>	<u>\$ 41.12</u>
Net gain on investments, realized and unrealized .....	\$ 13,737,416	\$ 1.60
Net investment income .....	920,527	0.11
Distributions to shareholders .....	(3,018,675)	(0.35)
Cost of Capital Stock repurchased .....	(569,427)	—
Net changes during period .....	<u>\$ 11,069,841</u>	<u>\$ 1.36</u>
End of period .....	<u>\$ 366,401,071</u>	<u>\$ 42.48</u>
	Beginning of Quarter	End of Quarter
Common market price per share .....	\$35.95	\$37.57
Common net asset value .....	\$41.12	\$42.48
Common market discount from net asset value .....	12.57%	11.56%

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

# SOURCE CAPITAL, INC.

## OFFICERS AND DIRECTORS



### **DIRECTORS**

Allan M. Rudnick, *Chairman*  
J. Richard Atwood  
Sandra Brown  
Mark L. Lipson  
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*  
David C. Lebisky, *Chief Compliance Officer*  
E. Lake Setzler III, *Treasurer*  
Francine S. Hayes, *Secretary*

### **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](http://www.amstock.com)

### **STOCK EXCHANGE LISTING**

New York Stock Exchange: SOR