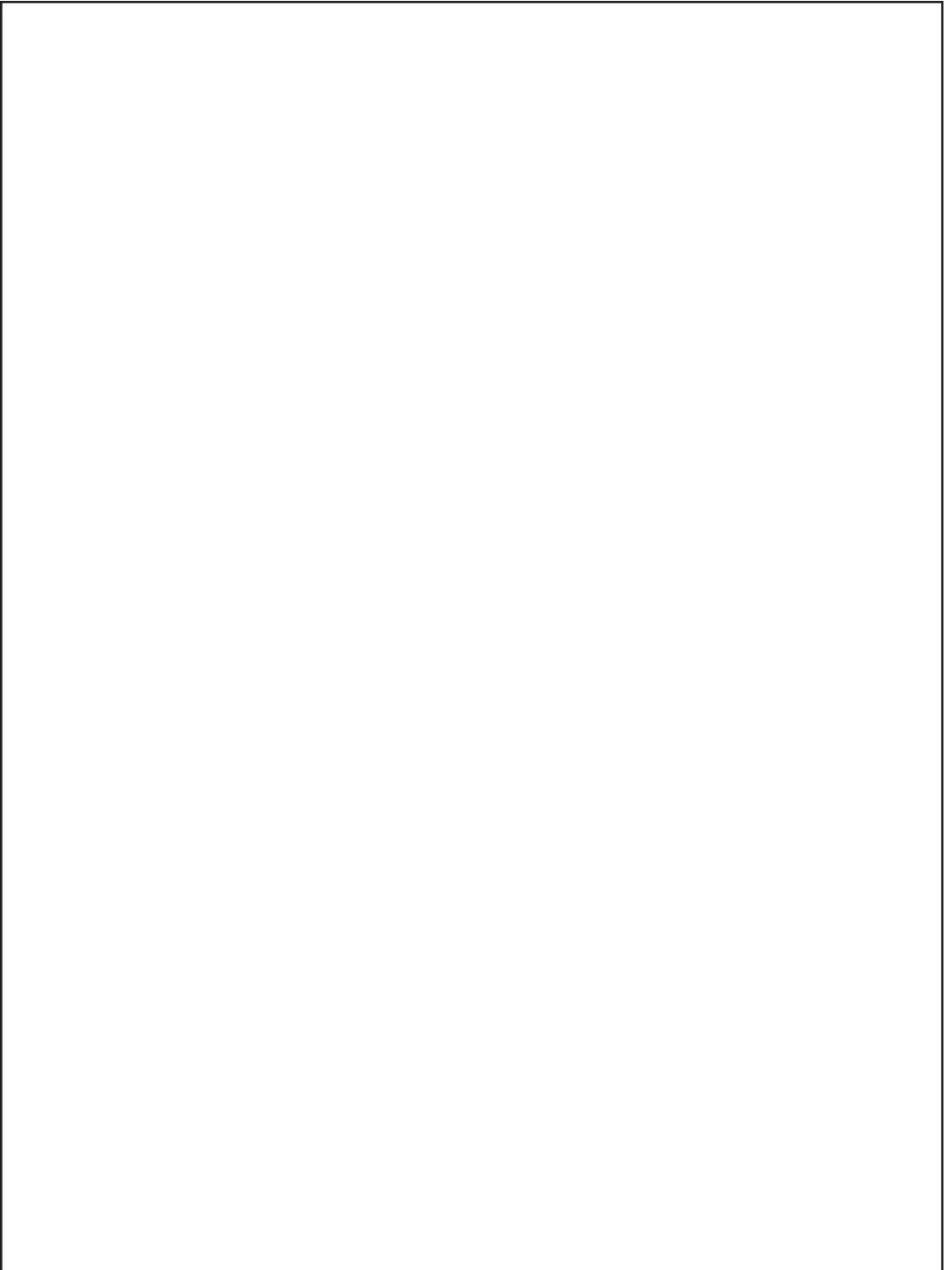




SOURCE CAPITAL, INC.

THIRD QUARTER REPORT

September 30, 2017



SOURCE CAPITAL, INC.

LETTER TO SHAREHOLDERS

Dear Shareholders:

Performance

During the third quarter of 2017, the net asset value per share of Source Capital, Inc. (the “Fund”) increased 3.13% for the quarter and 9.94% year to date (both percentages including the reinvestment of the distributions paid during the period). These changes compare with returns of 4.48% for the quarter and 14.24% year to date for the S&P 500 Index, 0.85% for the quarter and 3.14% year to date for the Barclays U.S. Aggregate Bond Index, and 3.02% for the quarter and 9.70% year to date for the 60/40 blended S&P 500/ Barclays U.S. Aggregate Bond benchmark during the same period.

Source Capital continues to maintain an approximately 60% allocation to equities and 40% allocation to fixed income. The Fund’s top five winners and losers for the third quarter of 2017 are presented below. The winners contributed 2.02%, while the losers detracted 1.09%.¹

<u>Winners</u>	<u>Performance Contribution</u>	<u>Losers</u>	<u>Performance Contribution</u>
Baidu	0.68%	Mylan	-0.36%
Aon plc	0.37%	Oracle	-0.19%
Citigroup	0.34%	General Electric Company	-0.18%
Alcoa	0.34%	WPP plc	-0.18%
Ally Financial	0.27%	United Technologies	-0.18%

Open Market Repurchases

We started the third quarter with the market discount to net asset value of 10.39% and ended the quarter with the discount at 8.84%. We repurchased 2,811 shares in the third quarter of 2017 at an average discount of 10.41%. While the number of shares purchased was modest, it was accretive to shareholders by adding \$0.0014 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 the Fund’s shares trade at a greater than 10% discount to the Fund’s net asset value, when in the Investment Adviser’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
October 17, 2017

¹ 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.

SOURCE CAPITAL, INC.
10 LARGEST HOLDINGS

September 30, 2017
(Unaudited)

Oracle Corporation	5.53%
Aon plc (Britain)	3.87%
Bank of America Corporation	3.78%
United Technologies Corporation	3.65%
American International Group, Inc.	3.62%
Citigroup, Inc.	3.44%
Microsoft Corporation	3.26%
Cisco Systems, Inc.	2.87%
TE Connectivity, Ltd. (Switzerland)	2.80%
Arconic, Inc.	<u>2.69%</u>
Total	<u><u>35.51%</u></u>

SOURCE CAPITAL, INC. PORTFOLIO SUMMARY

September 30, 2017
(Unaudited)

Common Stocks		60.0%
Infrastructure Software	8.8%	
Diversified Banks	7.2%	
Aircraft & Parts	6.3%	
Internet Media	5.3%	
Insurance Brokers	3.9%	
Consumer Finance	3.7%	
P&C Insurance	3.6%	
Semiconductor Devices	3.1%	
Communications Equipment	2.9%	
Electrical Components	2.8%	
Investment Companies	2.0%	
Advertising & Marketing	1.8%	
Specialty Pharma	1.8%	
Life Science Equipment	1.5%	
Electrical Power Equipment	1.4%	
Base Metals	1.1%	
Integrated Oils	1.1%	
Household Products	0.8%	
Food & Drug Stores	0.7%	
Exploration & Production	0.2%	
Bonds & Debentures		33.0%
Asset-Backed Securities	20.6%	
Commercial Mortgage-Backed Securities	5.1%	
Residential Mortgage-Backed Securities	3.8%	
Corporate Bank Debt	1.6%	
U.S. Treasuries	1.3%	
Corporate Bonds & Notes	0.5%	
Municipals	0.1%	
Short-term Investments		7.3%
Other Assets And Liabilities, Net		<u>(0.3)%</u>
Net Assets		<u>100.0%</u>

SOURCE CAPITAL, INC.
COMPOSITION OF NET ASSETS*

September 30, 2017

Investment securities (cost \$307,535,849):	
Common stocks	\$228,256,600
Bonds, debentures and other investments	125,425,153
	<u>\$353,681,753</u>
Cash, receivables, short-term corporate notes, less liabilities	26,623,809
Net assets at September 30, 2017	<u>\$380,305,562</u>

SUMMARY FINANCIAL INFORMATION

For the Periods Ended September 30, 2017

	Nine Months Ended September 30, 2017		Three Months Ended September 30, 2017	
	Total Net Assets	Per Common Share	Total Net Assets	Per Common Share
Beginning of Period	<u>\$ 355,331,230</u>	<u>\$ 41.12</u>	<u>\$371,941,070</u>	<u>\$43.13</u>
Net gain on investments, realized and unrealized ...	\$ 30,777,533	\$ 3.67	\$ 10,376,450	\$ 1.22
Net investment income	3,251,384	0.38	1,005,276	0.12
Distributions to Common shareholders	<u>(9,054,585)</u>	<u>(1.05)</u>	<u>(3,017,234)</u>	<u>(0.35)</u>
Net changes during period ..	<u>\$ 24,974,332</u>	<u>\$ 3.00</u>	<u>\$ 8,364,492</u>	<u>\$ 0.99</u>
End of Period	<u>\$ 380,305,562</u>	<u>\$ 44.12</u>	<u>\$380,305,562</u>	<u>\$44.12</u>
	Sept. 30, 2017	June 30, 2017	Dec. 31, 2016	
Common market price per share	\$40.22	\$38.65	\$35.95	
Common net asset value	\$44.12	\$43.13	\$41.12	
Common market discount from net asset value	8.84%	10.39%	12.57%	

* *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.*

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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*

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