SOURCE CAPITAL INC /DE/
Form N-CSR/A
August 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-1731

SOURCE CAPITAL, INC.
(Exact name of registrant as specified in charter)

11601 WILSHIRE BLVD., STE. 1200

LOS ANGELES, CALIFORNIA 90025
(Address of principal executive offices) (Zip code)

Copy to:

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LOS ANGELES, CALIFORNIA 90025	SAN FRANCISCO, CA 94104

(Name and address of agent for service)

Registrant s telephone number, including area code: (310) 473-0225

Date of fiscal year end: December 31

Date of reporting period: December 31, 2015

Item 1: Report to Shareholders

* Explanatory Note

The Registrant is filing this amendment to its Form N-CSR for the period ended December 31, 2015, originally filed with the Securities and Exchange Commission on March 4, 2016 (Accession Number 0001104659-16-102645) to amend Item 1.

The purpose of this amendment is to amend and update the Registrant s Letter to Shareholders contained in its Annual Report to Shareholders and revise certain disclosures related to changes to the Fund s investment program on December 1, 2015.

SOURCE CAPITAL, INC.

2015

ANNUAL REPORT

for the year ended December 31

SOURCE CAPITAL, INC.
LETTER TO SHAREHOLDERS

This commentary has been amended and updated to include a discussion of Source Capital's performance under its former investment strategy. As described below, the Fund's investment program changed on December 1, 2015.

DEAR SHAREHOLDERS,

FPA was sorry to see Eric Ende retire from managing the Fund's portfolio at the end of November 2015. Eric successfully guided Source Capital (the "Fund" or the "Company") since 1996 and will be greatly missed. We knew Eric would have to retire eventually, but we always hoped somehow he would beat Father Time. FPA sought successor portfolio management appropriate to the Fund and consistent with its historic investment policies, so the Fund's board of directors and FPA decided that, going forward, Source will be managed jointly by FPA's Contrarian Value ("CV") and Absolute Fixed Income ("AFI") investment teams, which manage the FPA Crescent Fund and the FPA New Income Fund, respectively.

Eric purchased shares of high-quality businesses and held them for years, resulting in exceptionally low turnover averaging about 15% a year since 2000, in contrast with 72% for the average domestic equity closed-end fund during that period.[1] However, when new portfolio managers step up, they need to consider what is in the best interests of shareholders and then be judged on their own investments, not on those of their predecessor, which sometimes means, as it did here, that much of a fund's portfolio will turn over. This action is not without consequence for the taxable investor in the Fund, as long-term capital gains were realized in this transition, an inevitable by-product of what was a fruitful implementation of a long-term strategy.[2] Had Eric managed a portfolio with turnover similar to the typical equity mutual fund, then a taxable investor would likely have paid far more in taxes along the way.

While the Fund's investment objective did not change in that it continues to seek maximum total return for shareholders from both capital appreciation and investment income, the portfolio manager change did result in a change to the Fund's investment program. Specifically, the Fund will invest in a balanced portfolio of both common stocks and fixed-income securities. Currently, the portfolio managers are targeting a portfolio mix of 60% common stocks and 40% fixed income. You can read a detailed description of the strategy in the Fund's policy statement following this commentary and available online at www.sourcecapitalinc.com.

Performance

The Fund's net asset value was down 4.38% for the calendar year ended December 31, 2015. For comparison, the Russell 2500 was down 2.90%, and the S&P 500 was up 1.38%. For the period prior to the change (January 1 through November 30), the Fund's net asset value was down 0.96; the Russell 2500 and S&P 500 were up 1.22% and 3.01%, respectively during this period. Many of the Fund's holdings were down for this period, with the weakest performers being the investments in trucking companies (Heartland Express and Knight Transportation), as well as energy-related businesses (FMC Technologies) and retail (CarMax and Bed, Bath & Beyond). The weakness in those holdings was partially offset by several positive contributors, the largest being O'Reilly Automotive, Domino Printing and Bio-Rad Laboratories.

The CV and AFI teams have been transitioning the portfolio since assuming portfolio management responsibility on December 1, 2015. To date, the CV team has largely transitioned the equity sleeve, while the AFI team expects that its transition of the fixed income sleeve will be completed over the next few months. For the period December 1 through December 31, the Fund declined 3.46%; during this period, the Russell 2500 was down 4.07%, and the S&P 500 was down 1.58%. The weakest performers in the portfolio for this period were Oracle, Aon and Citigroup, while Alcoa, Thermo Fisher and General Electric provided the largest positive contributions.

Commentary of New Portfolio Managers

Since this is our introductory shareholder letter as managers of Source Capital, we thought it best to clearly state our investment objectives and the manner in which we intend to apply ourselves such that you and we will similarly deem our tenure a success. To that end, we submit to you the Source Capital Investment Policy Statement, simultaneously published on our website but reprinted below for your benefit. [3] We would be honored to continue to earn, over many years, the respect of our clients and peers as thoughtful value investors. We are value investors because it makes sense to us, fits our risk-averse personalities and appeals to our sense of intellectual honesty. We believe that value investing is the best means that we are aware of to preserve capital and to continue to provide adequate growth over the long term. We are fortunate to be doing what we love.

Our sound and battle-tested strategy, dedication and diligence will fall short at times, as we will occasionally suffer mark-to-market declines and poor relative performance. We know of no way to achieve our long-term goals without periodically

[1] FPA/Morningstar. Portfolio turnover calculated for the period 2000-2014.

[2] Under Eric's management, the Fund generally sought to minimize the tax impact on investors' returns through the following techniques: (1) low turnover, since frequent trading causes a fund to realize capital gains, which must then be distributed to shareholders, reducing after-tax returns; (2) a disciplined sell-selection methodology, i.e., selecting a specific share selection methodology (often the highest cost shares) in order to seek to minimize realized capital gains; and (3) selling securities at a loss in order to offset realized capital gains that would otherwise have to be distributed to shareholders. The Fund's tax-management techniques, under Eric's management, could have reduced an investor's taxable income but would not have eliminated it.

[3] http://www.sourcecapitalinc.com/docs/fpa-source-fund-information/source-capital-policy-statement

SOURCE CAPITAL, INC.
LETTER TO SHAREHOLDERS Continued

disappointing our shareholders and clients. We hope that through good communication, we will make clear to our clients what to expect from an investment with us, and trust that it will help you make appropriate decisions regarding your investment in the Fund.

Closed-end funds frequently trade at discounts to net asset value (NAV). In an effort to minimize the discount, Source will maintain its quarterly-managed distribution policy and will opportunistically repurchase its own shares.

The distribution for the current quarter represents 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 continue to be weak, then 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.

The Fund 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 FPA's ability to raise cash to repurchase shares of the Fund's common stock in a tax-efficient manner. There is no assurance that the Fund will purchase shares at any specific discount levels or in any specific amounts.

We believe the best clients/shareholders are those who understand our goal, philosophy, and process/strategy. We provide on our website (www.fpafunds.com) quarterly shareholder letters, special commentaries, speeches and a core values declaration (*The FPA Way*, available at the same site). That, along with this policy statement, is part of a constant effort to educate those who have entrusted us with their capital. We urge you to read all of them because only then can you gain the confidence you need to have us as your manager.

Respectfully submitted,

The Contrarian Value and Absolute Fixed Income Teams

SOURCE CAPITAL, INC.
INVESTMENT POLICY STATEMENT

Fund Investment Objective and Strategy

Source Capital seeks a maximum total return for shareholders from both capital appreciation and investment income to the extent consistent with protection of invested capital. We strive to accomplish this objective over a full market cycle, which we generally consider to be five to seven years.

The Company employs a balanced strategy using stocks and bonds to try to meet this goal. Generally, 50%-70% of the Company's assets will be allocated to equities and 30%-50% to fixed-income. The Company will vary its allocation to equities and fixed-income over time as a function of the opportunity set based on the equity managers' evaluation of prospects in the stock market. The Company invests in public equities of large businesses from around the world as well as primarily U.S.-domiciled fixed-income securities, both investment and non-investment grade.

The FPA Contrarian Value (CV) and FPA Absolute Fixed Income (AFI) teams will co-manage the Company. The CV team will manage the equities sleeve and make the asset allocation decisions, while the AFI team will manage the fixed-income sleeve. The portfolio managers will utilize an investment philosophy that is consistent with FPA's overall value-oriented strategies.

We seek to have the Company provide a better-than-average experience for its clients/shareholders. We can have neither pride nor sense of accomplishment if our clients, the very people we are in business to provide a service to, do not appropriately benefit from the relationship.

Equity Objective

The equity sleeve of the Company will be managed in a fashion consistent with the principles of the FPA CV strategy. We seek for our equity portfolio to generate equity-like returns over the long-term while taking less risk than the market and avoiding permanent impairment of capital on the total portfolio. With a larger-capitalization and global focus, we consider the S&P 500 and MSCI ACWI appropriate benchmarks.

The terms "long-term" and "equity-like return" can have an exactness and measurability. The term "risk," on the other hand, is inherently imprecise and its meaning is different for different people. Risk stems from the uncertainty that exists in the world. We along with the rest of humanity simply do not know what will happen next, so we are left with trying to guard against all manner of eventualities, while recognizing that more things *can* happen than *will* happen.

Equity Philosophy

We are absolute value investors.

We invest our money alongside yours, an alignment of interests we maintain across FPA. We view ourselves as the guardians of the capital entrusted to us.

We view ourselves as pragmatists with a healthy respect for what we do not know. We are neither optimists nor pessimists, as we invariably find ourselves hoping for the best while preparing for the worst.

Value investing is a familiar discipline but CV pursues a relatively unique strategy. We believe that CV differentiates itself because we invest on an absolute value basis, have a flexible mandate and a long-term orientation, consider the macroeconomic environment, understand risk, and only seek to commit capital when the potential reward justifies the risk assumed.

Absolute Value Investing

We seek genuine bargains, not relatively attractive securities.

We invest only in positions that we believe offer a compelling economic risk/reward proposition on an absolute basis. If prospective investments do not meet that requirement, then we wait until they do. We have no interest in merely buying the inexpensive. We want to purchase a stock at a substantial discount to that company's worth or intrinsic value.[i] Our flexible mandate gives us more tools to pursue an "absolute" path to value investing, in which success is measured by positive returns. We reject the "relative value" path favored by some portfolio managers, who may declare victory when the stock market has declined 40% and they lost just 35% of their clients' principal.

- **Flexible Mandate**

CV operates with a flexible mandate. We have proven our ability to invest in a variety of industries and geographies while frequently holding cash. Our partners' support and understanding of our process allows us to invest in those areas that appear most attractive on an absolute basis without regard for style box or conventional wisdom.

We believe our freedom, along with our willingness to hold cash, gives us a long-term advantage. For example, if the shares of foreign-domiciled companies appear less expensive than their U.S. counterparts, then we may invest more money overseas. If domestic and foreign stocks appear priced to perfection with little regard for exogenous risk, then our cash residual may build as we await opportunities to invest with less downside and more upside. The approach to cash holdings is discussed further in our 2004 Special Commentary, *The Case for Cash*.[ii] We believe our investment flexibility greatly enhances the likelihood that we could deliver an equity-like return with less risk over the long-term.

- **Long-Term Focus**

We believe the only way to accomplish our goal is to, at times, accept short-term underperformance. We measure our investment results over years, rather than in quarters, months, or days. We do not carry the bogey of having to excel each calendar year on our back. We think of long-term as generally five to seven years, a not atypical market cycle. What happens over any fraction thereof lies outside of our capability (and concern). Over shorter periods, temporary excesses in both the securities market and the economy have a tendency to distort reality and cloud understanding.

We avoid the temptation to look out beyond a prospective market cycle by remembering John Maynard Keynes'

SOURCE CAPITAL, INC.
INVESTMENT POLICY STATEMENT Continued

observation that "in the long run we are all dead." Nevertheless, great patience may prove necessary even in intermediate-term time frames.

Patience as an investment virtue may only be attained through education. We believe you should only invest with a manager whose philosophy and process you understand. Otherwise, you could find yourself unable to stomach what will certainly be more challenging periods.

We have underperformed in the past, and there will be times when we do so in the future. Current and prospective Fund investors need ask themselves how they might behave during the CV strategy's inevitable challenging periods.

- **Macroeconomic Considerations**

Unlike many value investors, we incorporate an understanding sometimes limited of the macroeconomic environment in our security analysis and portfolio construction. We recognize that we must consider bigger-picture extremes as we assess a company's current and prospective intrinsic value and how its business/industry might fare versus our macro view. This has caused us to overweight certain industries and, at times, to completely avoid others.[iii] Whether we use a top-down or bottom-up approach will depend on the company, industry, valuation, economy and our conviction in our assessment of each.

- **Risk Permanent Loss of Capital or Volatility?**

We cannot eliminate risk, but we seek to identify it, understand it, minimize it and be adequately compensated for it.

The word risk has no precise meaning in an investing context but there is plenty of it, including: credit, currency, obsolescence, fraud, sovereign, interest rate, inflation, litigation, expropriation, customer concentration, vendor disruption, competition, economic, balance sheet, political, permanent impairment, mark-to-market losses and more much more.

Risk goes hand in hand with investing. Even if you do not like the stock market and choose to remain in cash, then you still will have assumed inflation risk. If inflation subsequently moves higher, the value of your cash erodes. Every choice (and doing nothing is still a choice) trades one risk for another. If we tried to avoid all risk, then we would have little chance of accomplishing our goals. So, in a world where risk is unavoidable, the CV mission, on a portfolio basis, is to seek to minimize the risk of permanent capital impairment.

We reject volatility as a measure of risk. (Using volatility to measure risk is a bit like using a thermostat to measure a car's speed. You'll get a number, but not much understanding.) However, we know a highly volatile investment may not serve our clients well, since large fluctuations in price may create

stress, causing our clients to invest or cash-out at precisely the wrong times. Lower volatility is not the aim of CV's investment process, but it has proven to be a natural by-product.[iv]

Investors need to understand their own risk tolerances both psychological and practical instead of adopting a theoretical model prescribed by age bracket or wealth. Although we view risk as the potential for permanent loss of capital, we recognize that other investors may feel differently and that those investors might let volatility drive their investment decisions. Volatility creates extreme price movements during which an investor can choose to buy or sell.[v] We believe our investors must be aware of how they will react to price volatility. We are not oblivious to the fact that most individual and institutional investors can find themselves in the uncomfortable position of defending to their clients, employers, spouses, or even themselves a stock that keeps declining, or owning common stocks at all in a declining market.

A Morningstar study of mutual fund investors' trading demonstrated that there is a financial cost to trading decisions triggered by market volatility. In addition to reinforcing the established fact that mutual fund investors have a "tendency to buy high and sell low," the study also demonstrated that investor returns generally lagged those of funds' published total returns and pointed to a fund's volatility as "a key determinant in whether its investor returns are good or bad."[3] The findings are not surprising. Letting volatility dictate investment decisions has proven the bane of many mutual fund (and stock) investors.[vi] We want our investors' return experience to closely match our fund's returns.

Although we do not directly manage volatility and can offer no assurances of a smooth investment experience, we believe our approach gives us a good chance of providing a less volatile ride than the stock market. We hope our strategy, the Company's return pattern and our communications with you improve the odds that your return more closely mirrors the Company's return.

More importantly, regardless of the environment, we aim to distinguish ourselves by using volatility to our advantage rather than to our detriment. Instead of composing a portfolio designed to mimic the performance of some benchmark or index, we utilize a deeply-held contrarian philosophy oriented toward pushing back on a rising market by reducing exposure (thus allowing cash to increase) and conversely, leaning into a falling market and spending that cash to opportunistically buy inexpensive securities.

We hope that we have made it evident that we spend a disproportionate amount of our time evaluating and managing company-specific and macroeconomic risk. We believe that if we look to limit the downside of your portfolio, the upside will take care of itself.

[3] Per Morningstar, "investor return" (also known as dollar-weighted return) measures how the average investor fared in a fund over a period of time. Investor return incorporates the impact of cash inflows and outflows from purchases and sales and the growth in fund assets. For more information please see http://corporate.morningstar.com/us/documents/PR/Investorreturnsfactsheet.pdf

SOURCE CAPITAL, INC.
INVESTMENT POLICY STATEMENT Continued

- **Upside/Downside**

We invest your money in stocks that have what we believe to be advantageous upside/downside characteristics. Put another way, we seek to make a multiple of what we could potentially lose. In managing our portfolios, we accept that we will not always win and that "good" "bets" will sometimes be lost. What we seek to avoid is making bad bets. In addition to targeting asymmetric payoffs, we try to improve our odds further by conducting deep due diligence to gain a clear understanding of the underlying business and its industry, and then, wherever possible, applying some differentiated knowledge.

Equity Process

There is always a wide array of prospective investments from which to choose. We invest in an opportunistic manner based on our view of the world and the businesses and situations that we understand. We look for what is out of favor. We look for bad news. We take into account what the landscape is today and how it might change over time, both organically and through exogenous events. We mostly hold our own counsel, speaking to relatively few "investment professionals" outside FPA. We prefer to spend less time on Wall Street and more time with people on Main Street customers, competitors, company executives because we believe the interaction improves our understanding of businesses and industries. Then we read, read, read. And then, we read some more.

Next, we decide which investments might offer the best opportunities for us to reach our established longer-range goal (specific to the Company's equity sleeve). We then devote our time accordingly.

As we seek to gain comfort with a given investment, we determine what we need to know to prove or disprove the original thesis that drew our interest and triggered further research. We may read current and historic SEC filings and conference call transcripts, review pertinent periodicals, study the competition, and/or establish a model, among other things. We then work to gain a knowledge edge, an understanding of the business or industry that may not be universal. Some companies are followed too well for us to differentiate ourselves in this fashion but we certainly try. Such due diligence may take the form of conversations with ex-employees, vendors, industry consultants, etc.

Our bigger picture efforts have helped us identify areas of opportunity, and it has assisted us in avoiding landmines. Knowing the Titanic is unsinkable does not keep it afloat after it's steered into an iceberg. We study the macro to avoid a similar fate.

The Company finds opportunities in the following types of equities[vii] that generally have market values in excess of $10 billion, a subset of equities used in the CV strategy:

- Compounders The world's great businesses. Unquestionable competitive strength. Solid balance sheets. Shareholder-centric management. We think of these as infinite duration bonds with rising coupons.

- 3:1s An investment in a business possibly of a lesser quality than that of a compounder, but still a good business and

likely to have greater upside potential. We prefer to invest in these businesses when our assessment of the upside/downside (what we can make vs. what we can lose) has a ratio of 3:1 or better.

- Shorter-Term Opportunities Identified catalyst(s) expected to have positive impact on the value of the underlying business and therefore its stock price. For example, operational turnarounds, balance sheet optimization, corporate action, etc.

- Sum of the Parts The value of a company's disparate parts significantly exceeds its current stock price.

We recognize that the Company's returns will be driven not just by what we own but also by what we do not own. The Company's cash weighting will increase when we do not find enough appropriate investments. That cash is a residual of our investment process rather than a remnant of our macro-thinking. Cash helps us protect the downside and gives us the ability to take advantage of future opportunities.

Fixed Income Objective

The fixed income sleeve of the Company will adhere to the principles of the FPA AFI strategy, which is designed to seek to deliver long-term excess real return with less volatility than the overall bond market. To that end, the strategy aims to generate (a) a positive total return on a rolling twelve-month basis and (b) a total return in excess of CPI + 100 basis points on a rolling five-year basis. This total return strategy seeks to achieve a combination of income and price appreciation with an emphasis on capital preservation.

Fixed Income Philosophy

We do not like to lose money.

The AFI strategy is not a relative value strategy. Success or failure will not be measured relative to the performance of an index or a peer group, since losing less money than an index is still a loss. Moreover, we will not buy a bond hoping that a decrease in the bond's spread or a decrease in interest rates will lead to price appreciation. Rather, our measure of value when investing in bonds will be whether a bond's expected future cash flows adequately compensate us for taking on credit risk and duration risk on an absolute total return basis.

Fixed income is an episodic asset class that moves between extremes, with periods of high yield and low risk and periods of low yield and high risk. The AFI strategy has a flexible mandate that allows it to take advantage of the high-yield/low-risk environments while preserving capital during low-yield/high-risk environments. During the low-yield/high-risk environments, we will not reach for yield. Rather, in such periods, we will employ a disciplined investment process that focuses on capital preservation to seek to preserve investors' buying power on a real basis for high-yield/low-risk periods.

SOURCE CAPITAL, INC.
INVESTMENT POLICY STATEMENT Continued

To accomplish these goals, we adhere to the following principles:

- Absolute Return: We are absolute return investors, and each investment must meet our strict fundamental research and macroeconomic criteria, not just offer opportunity relative to other alternatives.

- Flexible Mandate: We do not bind ourselves to any one benchmark or index. Moreover, we do not have limitations in the types and duration of fixed income assets we may buy. In the absence of attractive investment opportunities, we hold cash. This flexibility is key to our ability to preserve capital and achieve our long-term objectives.

- Long-term Focus: Our investment time horizon is usually three to five years. We expect to hold our investments to maturity unless fundamental valuation parameters change. We are not speculators, and we adhere to a strict investment discipline.

- Alignment of Interest: We invest alongside our investors as partners in our process. As managers, we have significant amounts of our own capital invested in our strategy.

- Strict Risk/Reward Parameters: Risk of permanent loss is a critical element in our thinking, and so each investment must compensate for its unique risks while offering a margin of safety.

- Independent Decision Making: We do not follow the crowd. We are independent in our decision-making and are often viewed as contrarian in our strategy and execution.

Fixed Income Process

Our process requires discipline, patience, intellectual rigor and a long-term view. We seek to invest in individual securities that adequately compensate us for the potential risk of permanent capital loss and that meet the objectives described above. We build our portfolio by starting with 100% cash, then add individual investments that meet our risk/reward criteria. As a result, cash is the residual of our investment process. Our investment flexibility allows us to invest only where we see value.

A bond (or any other type of fixed income investment) is a claim backed by an asset such as a business, real estate, etc. Not unlike an equity investment, the value of a bond depends on the value of the underlying asset. Our research process is focused on valuing assets and then understanding the value of our claim on those assets.

Bonds have an asymmetric return profile, since they do not fully participate in changes in the underlying asset's value. A bond may only partially participate in increases in the underlying asset value, with a bond's potential value capped at par. On the other hand, a bond may fully participate in decreases in asset value, with the potential for the bond to be worth zero. Due to the asymmetry in a bond's future value, we invest in bonds by preparing for the worst and hoping for the best. Since bonds have limited upside potential, our research process focuses on

identifying the myriad of ways in which a bond could lose value. This process applies when ascertaining both credit risk and duration risk.

Credit risk is the risk of permanent loss of capital. Our investment process focuses on understanding whether the borrower has the willingness and ability to pay us back the money we are owed. When assessing the creditworthiness of borrowers, we research the value of the borrower's assets and the borrower's ability to generate cash flow, including anything that might impact asset value or the ability to generate cash flow such as secular trends; customer, competitor and supplier dynamics; and the regulatory environment. We also research the borrower's capital structure to understand how our claim on the borrower's asset value and cash flow can be reduced or impeded.

Duration risk is the risk of near-term price movements caused by changes in yield as a result of changes in Treasury rates or credit spreads. Consistent with our goal of low-volatility returns, we seek to buy bonds at prices that provide insulation from near-term movements in yields.

In applying our investment process to fixed income, we divide the bond market into two segments:

• High-Quality (Securities rated AA- and above). Price movement in high-quality bonds is closely linked to macroeconomic factors such as the level of interest rates and inflation, as well as economic cycles and monetary and fiscal policy. Nevertheless, though duration is a primary driver of returns (both near term and long term), we do not ignore credit risk. Instead, we seek to understand bond-specific and sector-specific credit risk. Our investment process seeks to identify high-quality bonds that meet our absolute return criteria of compensating us for the risk of permanent capital loss while also providing limited exposure to near-term price movements caused by macroeconomic factors.

• Credit-Sensitive (Securities rated A+ and below). Price movement in credit-sensitive bonds is primarily linked to the credit quality of the issuer and the issuer's willingness and ability to meet its contractual interest and principal payments. As such, though we evaluate duration risk, we focus our research on understanding credit risk.

Finally, we ask ourselves whether the price of the bond is attractive on an absolute return basis, relative to the risk of permanent loss of capital, relative to duration risk and relative to inflation. We will only invest when we can buy at an attractive price.

Fixed Income Portfolio Construction

We will target an allocation of 75% of the fixed income portfolio to high-quality assets and 25% in credit-sensitive assets. However, the actual allocation of the fixed income portfolio to high-quality assets may range from 67% to 100% of the fixed income portfolio, and the actual allocation to credit-sensitive assets may range from 0% to 33% of the fixed income portfolio. The actual allocation will depend on available investment

SOURCE CAPITAL, INC.
INVESTMENT POLICY STATEMENT Continued

opportunities and the timing of changes to the Company's allocation between equity and fixed income. Specifically, because of our absolute return, long-term oriented approach to investing, we will only invest in credit-sensitive assets to the extent that we feel we are compensated for the risk of permanent capital loss and near-term price volatility. As such, in the absence of attractive credit-sensitive investment opportunities, we will allocate more of the portfolio to high-quality assets or hold more cash.

Separately, fixed income markets, particularly markets for credit-sensitive assets, have varying degrees of liquidity. Increases in the Company's allocation to fixed income are thus most easily accomplished on a short-term basis by increasing the fixed income portfolio's allocation to high-quality assets. For example, starting with a 40% allocation of the Company's assets to fixed income and assuming that 75% of the fixed income portfolio is invested in high-quality assets, if the Company's allocation to fixed income were to increase to 50% of the Company's assets, then this increase in the fixed income allocation would be most efficiently accomplished by investing in additional high-quality assets rather than credit-sensitive assets. Consequently, the fixed income portfolio's allocation to high-quality assets would increase from 75% of the fixed income portfolio to 80%, and the allocation to credit-sensitive assets would decrease from 25% of the fixed income portfolio to 20%. Similarly, decreases in the Company's allocation to fixed income are most easily accomplished on a short-term basis by decreasing the fixed income portfolio's allocation to high-quality assets. Using the example above, if the Company's allocation to fixed income were to decrease from 40% of the Company's assets to 30%, then this decrease in the fixed income allocation would be most efficiently accomplished by selling high-quality assets rather than credit assets. As a result, the fixed income portfolio's allocation to high quality assets would decrease from 75% of the fixed income portfolio to 67%, and the allocation to credit assets would increase from 25% of the fixed income portfolio to 33%.

The fixed income portfolio's duration, sector allocation and yield are the cumulative result of the individual, bond-specific investment decisions made consistent with the process described above.

Unlike an open-ended fund, which needs to maintain liquidity for investor redemptions, we may take advantage of the lack of daily in/outflows due to the Company's closed-end nature. So instead of holding cash and cash equivalents, we may instead opportunistically own more "illiquid" assets (as defined by the SEC) and more assets that have greater near-term price volatility (including, but not limited to, interest-only securities).

Fixed Income Portfolio Review

We monitor each investment in the portfolio to ensure that its fundamental performance is consistent with our investment thesis. In addition, as interest rates and spreads change, we review each holding to ensure that it continues to offer us adequate compensation for credit risk and duration risk. To the extent that an investment's fundamental performance is inconsistent with our expectations and/or an investment no longer offers us adequate returns for the credit risk or duration risk we are taking, we will seek to reduce or eliminate our exposure to that investment.

Fund Asset Allocation

The CV team will decide how much of the Company will be invested in equities and fixed income securities, having made such asset allocation decisions for more than two decades. The amount invested in equities will be relatively similar to the equity exposure in the CV Strategy a derivative of bottom-up equity investment decisions. For example, in a sharp market decline, the CV team may decide to take advantage of buying opportunities that may drive a different asset allocation, one more exposed to equities. The AFI team will have responsibility for investing the balance in fixed income securities.

DISCLOSURES

[i] **Intrinsic value:** The present value of future cash flows or the price a knowledgeable and possibly strategic buyer might pay for the business.

[ii] See The Case for Cash on our website, fpafunds.com under Special Commentaries.

[iii] See Elephants in the Room and The Raw Deal on our website, fpafunds.com under Special Commentaries.

[iv] We believe most individuals and institutions should have their long-term savings managed by those who seek to protect capital *before* pushing to make a return on that capital. The Contrarian Value team, therefore, looks down (to see what risk lies below) before looking up (to see what opportunities might lie amongst the stars). Once we have assured ourselves that capital can be preserved, we then seek ways to grow real after-tax wealth at an acceptable rate. This strategy is aimed at allowing our investors to at a minimum win by not losing. We have accomplished that goal over our first seventeen years, and we will work to continue to do so prospectively. Cumulative experience (rather than repetitive) and a deeper pool of analytical talent should help.

[v] Most investors, consultants, and advisors have greater apprehension with regards to the volatility associated with downward price movements. Upside "vol" is more welcomed except by short sellers.

[vi] **Volatility**, the bane of many an investor. We lay out an example of this in our 2007 Q1 FPA Contrarian Value Commentary and further elucidate on the topic in our 2010 Q2 FPA Contrarian Value Commentary.

[vii] We invest in stocks that are generally greater than ~$10 billion USD in market capitalization at the time of purchase. We now have the ability to convert our typical 13G to a 13D filing. We can now add activism as a periodic *defensive* tool should the need arise. We expect 13D filings to be rare, but there have been times in the past when it would have been advantageous, and we expect that will be the case, on occasion, in the future.

SOURCE CAPITAL, INC.

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.

SOURCE CAPITAL, INC.
PORTFOLIO SUMMARY

December 31, 2015

Common Stocks		**28.8%**
Infrastructure Software	5.2%	
Diversified Banks	2.8%	
Insurance Brokers	2.1%	
Aircraft & Parts	1.7%	
P&C Insurance	1.7%	
Base Metals	1.6%	
Other Wholesalers	1.5%	
Electrical Components	1.5%	
Communications Equipment	1.4%	
Semiconductor Devices	1.2%	
Internet Media	1.2%	
Electrical Power Equipment	1.2%	
Advertising & Marketing	0.9%	
Life Science Equipment	0.8%	
Investment Companies	0.8%	
Exploration & Production	0.7%	
Consumer Finance	0.6%	
Beverages	0.5%	
Food & Drug Stores	0.4%	
Integrated Oils	0.4%	
Oil & Gas Services & Equipment	0.3%	
Home & Office Furnishings	0.2%	
Banks	0.1%	
Bonds & Debentures		**62.7%**
Short-Term Investments		**8.6%**
Other Assets and Liabilities, Net		**(0.1)%**
Net Assets		**100.0%**

See notes to financial statements.

SOURCE CAPITAL, INC.
FEDERAL INCOME TAX INFORMATION

(Unaudited)
Calendar 2015

Cash Dividends and Distributions:

Record Date	Payable Date	Amount Paid Per Share	(1) Ordinary Income Dividends	(2) Long-Term Capital Gain Distributions
02/20/2015	03/15/2015	$ 0.85	$ 0.0265	$ 0.8235
05/22/2015	06/15/2015	0.85	0.0265	0.8235
08/28/2015	09/15/2015	0.85	0.0265	0.8235
11/27/2015	12/15/2015	1.45*	0.0453	1.4047
TOTAL		$ 4.00	$ 0.1248	$ 3.8752

* Includes $0.60 per share special year-end distribution.

The amounts in column (1) are to be included as dividend income on your tax return and 100% of these amounts are Qualified Dividend Income.

In accordance with the provisions of the Internal Revenue Code, the amounts in column (2) are long-term capital gain distributions.

A Form 1099 has been mailed to all shareholders of record on dividend record dates setting forth the specific amounts to be included in their 2015 tax returns. For corporate shareholders, 100% of the amount in column (1) qualifies for the 70% corporate dividends received deduction. Source Capital did not elect to retain any undistributed long-term capital gains for the year ended December 31, 2015. Therefore, Common shareholders will not receive a Form 2439 for 2015.

Notice to Dividend Reinvestment Plan Participants:

When additional shares are issued by Source Capital under the Automatic Reinvestment Plan at a discount from the market price, a participant in the Plan is treated for federal income tax purposes as having received a taxable distribution equal to the market value of the shares purchased. In effect, the discount from market price at which shares are purchased is added to the amount of the cash distribution to determine the total value of the taxable distribution. Such value also becomes the participant's tax basis for the shares purchased under the Plan.

For the year ended December 31, 2015 none of the distributions paid were reinvested at a discount from the market price.

State Tax Information:

None of the amounts reported in column (1) were derived from U.S. Treasury Securities.

SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS

December 31, 2015

COMMON STOCKS	Shares	Fair Value
INFRASTRUCTURE SOFTWARE 5.2%		
Microsoft Corporation	293,730	$16,296,140
Oracle Corporation	452,250	16,520,693
		$32,816,833
DIVERSIFIED BANKS 2.8%		
Bank of America Corporation	388,540	$ 6,539,128
Citigroup, Inc.	213,050	11,025,338
		$17,564,466
INSURANCE BROKERS 2.1%		
Aon plc (Britain)	145,910	$13,454,361
AIRCRAFT & PARTS 1.7%		
United Technologies Corporation	115,100	$11,057,657
P&C INSURANCE 1.7%		
American International Group, Inc.	175,540	$10,878,214
BASE METALS 1.6%		
Alcoa, Inc.	911,320	$ 8,994,728
MMC Norilsk Nickel PJSC (ADR) (Russia)	96,470	1,224,687
		$10,219,415
OTHER WHOLESALERS 1.5%		
ScanSource, Inc.*	288,872	$ 9,307,456
ELECTRICAL COMPONENTS 1.5%		
TE Connectivity, Ltd. (Switzerland)	142,940	$ 9,235,353
COMMUNICATIONS EQUIPMENT 1.4%		
Cisco Systems, Inc.	321,100	$ 8,719,470
SEMICONDUCTOR DEVICES 1.2%		
Analog Devices, Inc.	81,430	$ 4,504,707
QUALCOMM, Inc.	59,960	2,997,101
		$ 7,501,808
INTERNET MEDIA 1.2%		
Alphabet, Inc. (Class A)*	4,863	$ 3,783,463
Alphabet, Inc. (Class C)*	4,874	3,698,781
		$ 7,482,244
ELECTRICAL POWER EQUIPMENT 1.2%		
General Electric Co.	234,090	$ 7,291,904
ADVERTISING & MARKETING 0.9%		
WPP plc (Britain)	254,930	$ 5,874,032
LIFE SCIENCE EQUIPMENT 0.8%		
Thermo Fisher Scientific, Inc.	37,560	$ 5,327,886
INVESTMENT COMPANIES 0.8%		
Groupe Bruxelles Lambert SA (Belgium)	58,930	$ 5,048,444
EXPLORATION & PRODUCTION 0.7%		
Occidental Petroleum Corporation	68,160	$ 4,608,298

CONSUMER FINANCE 0.6%		
American Express Co.	58,940	$ 4,099,277

See notes to financial statements.

SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2015

COMMON STOCKS *(Continued)*	Shares or Principal Amount	Fair Value
BEVERAGES 0.5%		
Anheuser-Busch InBev NV (ADR) (Belgium)	22,840	$ 2,855,000
FOOD & DRUG STORES 0.4%		
Walgreens Boots Alliance, Inc.	31,720	$ 2,701,117
INTEGRATED OILS 0.4%		
Gazprom PAO (ADR) (Russia)	279,640	$ 1,032,571
Lukoil PJSC (ADR) (Russia)	32,060	1,032,332
Rosneft OAO (GDR) (Russia)	125,850	437,454
		$ 2,502,357
OIL & GAS SERVICES & EQUIPMENT 0.3%		
Halliburton Co.	64,350	$ 2,190,474
HOME & OFFICE FURNISHINGS 0.2%		
HNI Corporation	27,782	$ 1,001,819
BANKS 0.1%		
Sberbank of Russia PJSC (ADR) (Russia)	109,600	$ 644,448
TOTAL COMMON STOCKS 28.8% (Cost $177,874,226)		$182,382,333
BONDS & DEBENTURES		
COMMERCIAL MORTGAGE-BACKED SECURITIES 0.2%		
AGENCY STRIPPED 0.2%		
Government National Mortgage Association 2015-108 1.00% 10/16/2056@	$14,954,270	$ 1,293,314
NON-AGENCY 0.0%		
Monty Parent Issuer 1 LLC 2013-LTR1 B 4.25% 11/20/2028**	$ 58,764	$ 58,778
TOTAL COMMERICAL MORTGAGE-BACKED SECURITIES (Cost $1,380,107)		$ 1,352,092
RESIDENTIAL MORTGAGE-BACKED SECURITIES 1.1%		
AGENCY COLLATERALIZED MORTGAGE OBLIGATION 0.7%		
Federal Home Loan Mortgage Corporation		
3690 G 2.50% 6/15/2020	$ 355,815	$ 361,573
4483 A 3.00% 12/15/2029	1,274,203	1,312,879
3770 WA 4.00% 11/15/2028	985,770	1,016,801
Federal National Mortgage Association		
2015-93 KC 2.00% 9/25/2044††	1,300,000	1,284,490
2014-4 KA 3.00% 1/25/2044	161,380	162,436
2003-78 B 5.00% 8/25/2023	469,741	511,627
		$ 4,649,806
AGENCY STRIPPED 0.1%		
Federal Home Loan Mortgage Corporation		
3775 LI 3.50% 12/15/2020	$ 1,741,315	$ 100,352

Federal National Mortgage Association 2010-57 ID 4.00% 6/25/2025	2,302,803	222,048
		$ 322,400
NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATION 0.3%		
BCAP LLC Trust 2010-RR8 2A6 2.177% 11/26/2036**,@	$ 1,320,000	$ 1,314,595
Towd Point Mortgage Trust 2015-1 AES 3.00% 10/25/2053**	822,821	824,178
		$ 2,138,773
TOTAL RESIDENTIAL MORTGAGE-BACKED SECURITIES (Cost $7,096,907)		$ 7,110,979

See notes to financial statements.

SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2015

BONDS & DEBENTURES *(Continued)*	Principal Amount	Fair Value
ASSET-BACKED SECURITIES 4.2%		
AUTO 3.5%		
AmeriCredit Automobile Receivables Trust 2013-1 D 2.09% 2/8/2019	$ 1,300,000	$ 1,301,160
Capital Auto Receivables Asset Trust 2015-2 A3 1.73% 9/20/2019	725,000	720,712
Drive Auto Receivables Trust 2015-BA B 2.12% 6/17/2019**	1,300,000	1,297,496
Enterprise Fleet Financing LLC		
2014-1 A2 0.87% 9/20/2019**	1,146,286	1,143,949
2013-2 A3 1.51% 3/20/2019**	800,000	798,595
First Investors Auto Owner Trust		
2014-1A A3 1.49% 1/15/2020**	1,300,000	1,301,294
2013-1A B 1.81% 10/15/2018**	530,000	530,450
Hyundai Auto Lease Securitization Trust 2014-A B 1.30% 7/16/2018**	1,000,000	997,148
Prestige Auto Receivables Trust		
2015-1 A2 1.09% 2/15/2019**	362,877	362,476
2015-1 A3 1.53% 2/15/2021**	1,300,000	1,291,263
Santander Drive Auto Receivables Trust		
2015-1 A3 1.27% 2/15/2019	1,300,000	1,297,740
2015-4 A3 1.58% 9/16/2019	395,000	392,584
2014-2 B 1.62% 2/15/2019	1,300,000	1,300,180
2013-1 C 1.76% 1/15/2019	1,300,000	1,300,284
2013-3 C 1.81% 4/15/2019	171,000	171,145
2014-4 B 1.82% 5/15/2019	1,300,000	1,298,829
2015-2 B 1.83% 1/15/2020	1,300,000	1,293,728
2014-2 C 2.33% 11/15/2019	1,300,000	1,304,755
2013-A C 3.12% 10/15/2019**	1,300,000	1,314,887
2012-3 D 3.64% 5/15/2018	1,300,000	1,318,540
Westlake Automobile Receivables Trust 2015-1A A2 1.17% 3/15/2018**	1,136,994	1,134,067
		$21,871,282
OTHER 0.7%		
Cabela's Credit Card Master Note Trust 2012-2A A1 1.45% 6/15/2020**	$ 1,300,000	$ 1,297,145
PFS Financing Corp. 2014-AA A 0.931% 2/15/2019**,@	1,500,000	1,495,634
Synchrony Credit Card Master Note Trust 2012-6 A 1.36% 8/17/2020	325,000	323,084
VOLT XL LLC 2015-NP14 A1 4.375% 11/27/2045**,@@	1,320,000	1,318,991

		$ 4,434,854
TOTAL ASSET-BACKED SECURITIES (Cost $26,325,524)		$26,306,136
CORPORATE BONDS & NOTES 0.6%		
BASIC MATERIALS 0.2%		
Thompson Creek Metals Co., Inc. 9.75% 12/1/2017	$ 1,500,000	$ 1,297,500
ENERGY 0.2%		
Atwood Oceanics, Inc. 6.50% 2/1/2020	$ 1,750,000	$ 949,375
INDUSTRIAL 0.2%		
Reynolds Group Issuer, Inc/Reynolds Group Issuer LLC/Reynolds Group Issuer Lu 7.875% 8/15/2019	$ 1,250,000	$ 1,300,000
TOTAL CORPORATE BONDS & NOTES (Cost $3,875,625)		$ 3,546,875
CORPORATE BANK DEBT 0.2%		
WireCo WorldGroup, Inc. 1.00% 2/15/2017**,@ (Cost $927,422)	$ 958,576	$ 927,940

See notes to financial statements.

SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2015

BONDS & DEBENTURES *(Continued)*	Principal Amount	Fair Value
MUNICIPALS 0.2%		
Puerto Rico Commonwealth Aqueduct and Sewer Authority Senior Lien		
8.75% 2/29/2016**†† (Cost $1,357,000)	$ 1,357,000	$ 1,357,000
U.S. TREASURIES 34.1%		
U.S. Treasury Bills 0.00% 1/7/2016	$ 80,000,000	$ 79,999,664
U.S. Treasury Notes		
0.375% 3/15/2016	134,050,000	134,072,226
1.00% 12/15/2017	1,300,000	1,298,383
TOTAL U.S. TREASURIES (Cost $215,416,664)		$215,370,273
U.S. AGENCY 22.1%		
Federal Home Loan Bank 0.00% 3/14/2016@@@ (Cost $139,864,200)	$140,000,000	$139,948,340
TOTAL BONDS & DEBENTURES (Cost $396,243,449)		$395,919,635
TOTAL INVESTMENT SECURITIES 91.5% (Cost $574,117,675)		$578,301,968
SHORT-TERM INVESTMENTS 8.6%		
Exxon Mobil Corporation		
0.12% 1/6/2016	$ 15,000,000	$ 14,999,750
0.14% 1/7/2016	15,000,000	14,999,650
State Street Bank Repurchase Agreement 0.03% 1/4/2016 (Dated 12/31/2015, repurchase price of $24,664,000, collateralized by: $2,320,000 principal amount U.S. Treasury Bond 3.625% 2043, fair value $2,639,000; and $22,465,000 principal amount U.S. Treasury Note 2.25% 2024, fair value $22,521,163)	24,664,000	24,664,000
TOTAL SHORT-TERM INVESTMENTS (Cost $54,663,400)		$ 54,663,400
TOTAL INVESTMENTS 100.1% (Cost $628,781,075)		$632,965,368
Other Assets and Liabilities, net (0.1)%		(511,356)
NET ASSETS 100.0%		$632,454,012

* Non-income producing security.

@ Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in a designated base rate. The rates shown are those in effect on December 31, 2015.

** Restricted securities. These restricted securities constituted 2.97% of total net assets at December 31, 2015, most of which are considered liquid by the Adviser. These securities are not registered and may not be sold to the public. There are legal and/or contractual restrictions on resale. The Company does not have the right to demand that such securities be registered. The values of these securities are determined by valuations provided by pricing services, brokers, dealers, market makers, or in good faith under policies adopted by authority of the Company's Board of Directors.

†† These securities have been valued in good faith under policies adopted by authority of the Board of Directors in accordance with the Company's fair value procedures. These securities constituted 0.42% of total net assets at December 31, 2015.

@@ Step Coupon   Coupon rate increases in increments to maturity. Rate disclosed is as of December 31, 2015.

@@@ Zero Coupon Bond. Coupon amount represents effective yield to maturity.

See notes to financial statements.

SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS
RESTRICTED SECURITIES

December 31, 2015

Issuer	Acquisition Date(s)	Cost	Fair Value	Fair Value as a % of Net Assets
BCAP LLC Trust 2010-RR8 2A6	12/08/2015	$ 1,312,575	$ 1,314,595	0.21%
Cabela's Credit Card Master Note Trust 2012-2A A1	12/02/2015	1,298,984	1,297,145	0.20%
Drive Auto Receivables Trust 2015-BA B	12/02/2015	1,300,000	1,297,496	0.20%
Enterprise Fleet Financing LLC 2014-1 A2	12/02/2015	1,143,345	1,143,949	0.18%
Enterprise Fleet Financing LLC 2013-2 A3	12/11/2015	795,625	798,595	0.13%
First Investors Auto Owner Trust 2014-1A A3	12/02/2015	1,299,086	1,301,294	0.21%
First Investors Auto Owner Trust 2013-1A B	12/02/2015	529,772	530,450	0.08%
Hyundai Auto Lease Securitization Trust 2014-A B	12/31/2015	997,148	997,148	0.16%
Monty Parent Issuer 1 LLC 2013-LTR1 B	12/02/2015	57,589	58,778	0.01%
PFS Financing Corporation 2014-AA A	12/14/2015	1,490,039	1,495,634	0.24%
Prestige Auto Receivables Trust 2015-1 A3	12/11/2015	1,290,250	1,291,263	0.20%
Prestige Auto Receivables Trust 2015-1 A2	12/10/2015	362,154	362,476	0.06%
Puerto Rico Commonwealth Aqueduct and Sewer Authority Senior Lien	12/02/2015, 12/17/2015	1,357,000	1,357,000	0.21%
Santander Drive Auto Receivables Trust 2013-A C	12/18/2015	1,316,047	1,314,887	0.21%
Towd Point Mortgage Trust 2015-1 AES	12/09/2015	825,321	824,178	0.13%
VOLT XL LLC 2015-NP14 A1	12/08/2015	1,318,997	1,318,991	0.21%
Westlake Automobile Receivables Trust 2015-1A A2	12/02/2015	1,135,928	1,134,067	0.18%
WireCo WorldGroup, Inc.	12/04/2015, 12/07/2015	927,422	927,940	0.15%
TOTAL RESTRICTED SECURITIES		$18,757,282	$18,765,886	2.97%

See notes to financial statements.

15

SOURCE CAPITAL, INC.
STATEMENT OF ASSETS AND LIABILITIES

December 31, 2015

ASSETS	
Investment securities — at fair value (identified cost $574,117,675)	$578,301,968
Short-term investments — at amortized cost (maturities 60 days or less)	54,663,400
Cash	682
Receivable for:	
Investment securities sold	4,452,852
Dividends and interest	737,734
Prepaid expenses and other assets	3,400
Total assets	638,160,036
LIABILITIES	
Payable for:	
Investment securities purchased	5,113,761
Advisory fees	371,490
Accrued expenses and other liabilities	220,773
Total liabilities	5,706,024
NET ASSETS	$632,454,012
SUMMARY OF SHAREHOLDERS' EQUITY	
Capital Stock — par value $1 per share; authorized 12,000,000 shares; outstanding 8,655,240 shares	$ 8,655,240
Additional Paid-in Capital	320,783,439
Undistributed net realized gain	298,563,032
Undistributed net investment income	300,666
Unrealized appreciation of investments	4,151,635
NET ASSETS	$632,454,012
Common Stock net asset value per share	$ 73.07
Common Stock market price per share	$ 66.26

See notes to financial statements.

SOURCE CAPITAL, INC.
STATEMENT OF OPERATIONS

For the year ended December 31, 2015(1)

INVESTMENT INCOME	
Dividends (net of foreign taxes withheld of $50,975)	$ 5,633,078
Interest	301,000
Total investment income	5,934,078
EXPENSES	
Advisory fees	4,626,319
Audit and tax services fees	235,107
Directors fees and expenses	221,935
Reports to shareholders	220,242
Transfer agent fees and expenses	171,056
Legal fees	160,520
Custodian fees	33,800
Administrative services fees	25,495
Filing fees	25,000
Professional fees	22,656
Other	19,435
Total expenses	5,761,565
Net expenses	5,761,565
Net investment income	172,513
NET REALIZED AND UNREALIZED GAIN (LOSS)	
Net realized gain (loss) on:	
Investments	327,863,281
Foreign currency transactions	198,670
Net change in unrealized appreciation (depreciation) of:	
Investments	(357,365,413)
Translation of foreign currency denominated amounts	(32,658)
Net realized and unrealized loss	(29,336,120)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ (29,163,607)

(1) The Fund's returns and other financial information from prior to December 1, 2015 reflect the management of the Fund's former portfolio manager, Eric Ende, using the Fund's former investment strategy and are not indicative of future financial results.

See notes to financial statements.

SOURCE CAPITAL, INC.
STATEMENT OF CHANGES IN NET ASSETS

	Year ended December 31, 2015(1)	Year ended December 31, 2014
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income	$ 172,513	$ 1,239,865
Net realized gain	328,061,951	40,194,217
Net change in unrealized appreciation (depreciation)	(357,398,071)	51,182,413
Net increase (decrease) in net assets resulting from operations	(29,163,607)	92,616,495
Distributions to shareholders from:		
Net investment income	$ (371,183)	$ (1,570,290)
Net realized capital gains	(34,249,777)	(34,781,718)
Total distributions	(34,620,960)	(36,352,008)
Total change in net assets	(63,784,567)	56,264,487
NET ASSETS		
Beginning of year	696,238,579	639,974,092
End of year	$ 632,454,012	$696,238,579

(1) The Fund's returns and other financial information from prior to December 1, 2015 reflect the management of the Fund's former portfolio manager, Eric Ende, using the Fund's former investment strategy and are not indicative of future financial results.

See notes to financial statements.

SOURCE CAPITAL, INC.
FINANCIAL HIGHLIGHTS

Selected data for each share of Capital Stock outstanding throughout each year(1)

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Per share operating performance:					
Net asset value at beginning of year	$ 80.44	$ 73.94	$ 59.06	$ 54.30	$ 60.47
Income from investment operations:					
Net investment income(2)	$ 0.02	$ 0.14	$ 0.14	$ 0.32	$ 0.22
Net realized and unrealized gain (loss) on investment securities	(3.39)	10.56	17.74	8.18	(2.84)
Total from investment operations	$ (3.37)	$ 10.70	$ 17.88	$ 8.50	$ (2.62)
Distributions to Preferred shareholders:					
Dividends from net investment income				$ (0.19)	$ (0.28)
Distributions from net realized capital gains				(0.08)	(0.27)
Distributions to Common shareholders:					
Dividends from net investment income	$ (0.04)	$ (0.18)	$ (0.22)	(0.10)	
Distributions from net realized capital gains	(3.96)	(4.02)	(2.78)	(3.37)	(3.00)
Total distributions	$ (4.00)	$ (4.20)	$ (3.00)	$ (3.74)	$ (3.55)
Net asset value at end of year	$ 73.07	$ 80.44	$ 73.94	$ 59.06	$ 54.30
Per share market value at end of year	$ 66.26	$ 72.13	$ 67.10	$ 52.22	$ 46.98
Total investment return(3)	(2.76)%	14.20%	34.80%	18.50%	(6.30)%
Net asset value total return(4)	(4.38)%	14.90%	30.90%	15.60%	(5.20)%
Ratios/supplemental data:					
Net assets, end of year (in $000's)	$632,454	$696,239	$639,974	$511,150	$ 524,174

Ratios based on average net assets applicable to Common Stock:					
Expenses	0.85%	0.80%	0.84%	0.93%	0.96%
Net investment income	0.03%	0.19%	0.18%	0.56%	0.38%
Portfolio turnover rate	39%	6%	9%	7%	18%
Preferred Stock(5)					
Total shares outstanding(6)	N/A	N/A	N/A	N/A	1,969,212
Asset coverage per share(6)	N/A	N/A	N/A	N/A	$ 266.18