Dear Shareholders:

Overview

Source Capital Inc.'s ("Source" or "Fund") net asset value (NAV) increased 11.81% for the fourth quarter and 5.98% for the full year 2020.

The Fund's performance and that of its underlying equity exposure can be considered in the context of the following illustrative indices.

Exhibit A: **Performance versus Indices**[1]

	Q4 2020	2020
Source Capital (NAV)	11.81%	5.98%
Source Capital – Equity (Gross)	14.87%	12.94%
60% MSCI ACWI/40% BB U.S. Agg	9.04%	13.49%
60% S&P 500/40% BB U.S. Agg	7.54%	14.73%

Stock prices generally appreciated over the last three months; and in many cases increased by quite a lot. The Fund showed an outsized improvement in the fourth quarter, which was generally a function of the many positions we pointed out as being inexpensive in our Q3 2020 commentary.[2] And still, in our assessment, not a lot has changed in the underlying fundamentals of the companies held in the portfolio.

We continue to take necessary steps to drive yield and total return, but it will take time to appropriately execute. We can report the following:

- We continue to increase the Fund's exposure to private credit. Stockholders in the Fund can benefit from the Fund's closed-end fund (CEF) structure, which allows a greater percentage of the portfolio to be invested in such higher yielding, less liquid or private assets because a CEF does not have the daily liquidity needs of an open-end mutual fund. To date, we have allocated 11.7% of net assets to private loans of which 7.5% has been invested. We believe the Fund's increasing exposure to this asset class should drive a higher sustainable yield and total return as we reduce the Fund's current 12.4% cash position.

- The Fund has secured a line of credit to be drawn once we have deployed the available cash. The addition of leverage will only be used in the context of the Fund's higher yielding fixed income investments. We believe the benefit of a relatively wide spread to the Fund's cost of capital should eventually enhance the Fund's yield and total return.

- The Fund repurchased 53,795 shares in 2020's fourth quarter at an average weighted discount to net asset value (NAV) of 11.3%, representing 0.6% of the outstanding shares at the beginning of the period.

- The Fund began monthly distributions in 2021 with distributions of $0.083 per share in both January and February. The distribution rate was increased 46% to $0.12167 per share for March, April and May, in recognition of the Fund's additional distributable earnings and as expectations for the strategy to generate a higher yield begins to bear fruit.[3]

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[1] Comparison to the indices is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index. No representation is being made that any account, product or strategy will or is likely to achieve profits, losses, or results similar to those shown. The long equity gross returns of the Fund are presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. Long equity includes common and preferred stocks. Long equity performance does not represent the return an investor in the Fund can or should expect to receive. Fund shareholders may only invest or redeem their shares at market value (NYSE: SOR), which may be higher or lower than the Fund's net asset value (NAV).

[2] https://fpa.com/docs/default-source/funds/source-capital/literature/quarterly-commentaries/source-capital-commentary-2020-q3-final.pdf?sfvrsn=4.

[3] There is no guarantee that the Fund will achieve its objectives. 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.

We hope the Fund's reorientation will achieve its performance goals and strike a chord in our shareholder base that will allow it to trade closer to its NAV (on average over a full market cycle).

Portfolio discussion

Equity

It's been a year of extreme, nerve-wracking volatility. Our longer-term mindset is our anchor in choppy seas, guiding us to seek out what is currently out of favor while avoiding the inflated valuations of what is in vogue. However, these portfolio decisions can cause us to appear out of touch with the crowd – hopefully a temporary phenomenon, and incumbent on us to prove to you over time.

In a communication earlier this year, we shared what we believed would be temporary impacts on certain businesses: that people would get on planes and stay in hotels again, and what that might mean for the travel and aerospace industries, for example.

We owned and subsequently purchased many stocks that experienced dramatic price declines in the first quarter. The shares of these companies were priced at such low valuations, suggesting that their businesses would never recover.

As a result, the Fund saw more changes in its portfolio last year than it has had in many years. We reset the portfolio by reducing or eliminating certain holdings that in our view offered less attractive long-term potential, while increasing existing and new positions in those businesses that we believed were temporarily harmed by the global pandemic but whose stock prices were disproportionately decimated.

The contributors to and detractors from the Fund's trailing 12-month returns are listed below and reflect the realities of 2020: technology and other growth stocks performed well, while more cyclical "value" stocks did not.

Exhibit B: Trailing Twelve Month Contributors and Detractors as of December 31, 2020[4]

Contributors	Perf. Cont.	Avg. % of Port.	Detractors	Perf. Cont.	Avg. % of Port.
Alphabet	1.54%	4.8%	Howmet Aerospace	-1.45%	1.8%
Broadcom	1.21%	2.6%	McDermott (multiple issues)	-1.31%	0.9%
Facebook	0.93%	2.3%	AIG	-1.10%	2.7%
Nexon	0.92%	0.93%	Wells Fargo	-1.04%	1.6%
Charter	0.91%	2.3%	Ally Financial	-0.90%	0.4%
	5.51%	**12.9%**		**-5.80%**	**7.3%**

Technology: It's no great surprise that the top four contributors to performance over the last year were our technology investments that floated upwards on the rising tide. Despite taking some profits, we retained many of these positions. These companies share the common characteristic that they operate successful business models and trade at valuations that, although not as inexpensive as they once were, we believe will still provide a reasonable return in the years to come.

Financials: The financials in our portfolio underperformed as investors sold shares in a panic, fearing that the economic downturn would cause such damage to loan and investment portfolios and that there would be, in general, less demand for their products and services. The market was correct that their businesses would be harmed, but not to the degree that was ultimately priced into their stocks. There has been some recognition of this as financials were strong performers in Q4 and in the early days of 2021. Given strong

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[4] Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the trailing twelve months ("TTM"). Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. The information provided does not reflect all positions purchased, sold or recommended by FPA during the quarter. A copy of the methodology used and a list of every holding's contribution to the overall Fund's performance during the TTM is available by contacting FPA Client Service at crm@fpa.com. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed.

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balance sheets, a post-COVID economy within sight, stimulus packages, and the Fed's security purchase support, combined with inexpensive valuations, we suspect that there is still gas left in their collective tank.

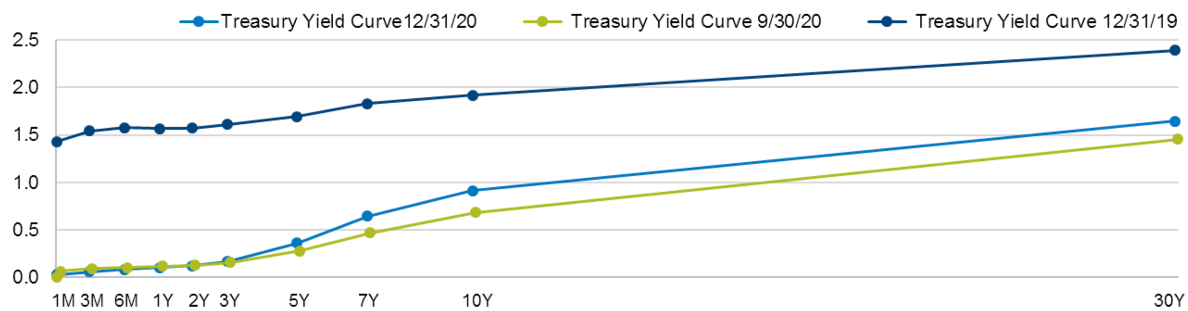
Aerospace: We own an aerospace supplier, Howmet, which saw its stock price decline by around two-thirds from its Q1 2020 highs. Howmet's price increased about three times from its low and ended the year at its all-time high.

When things look bleakest, the prospects for returns are typically brightest. As much as that might have been the case earlier this year, in our assessment the opposite is true today. Now that the stock market has run to new highs, we would suggest that we have borrowed from future returns.[5] In general, the more you pay for an asset, the lower you can expect for its future return.

Credit

While COVID-19 has put the world in a more precarious position than it was in before March, the markets suggest otherwise. The chart below shows that, over the past 12 months, Treasury yields have declined by approximately 145 basis points (bps) for bonds maturing within three years and approximately 120-130 bps for bonds maturing in five to seven years.

***Exhibit C:* Treasury Yield Curve**[6]



We have frequently commented about why it's important to invest based on yield rather than spread. Dollars of return is what ultimately drives performance. Moreover, dollars of return offset default-related losses. Expected future dollars are measured by yield, not spread. A recent research note is a good example of why yield matters: "It is noteworthy that at an index level, CCCs have gone from a 10% YTW a year ago to 6.5% today, implying substantial performance. Unfortunately, actual total returns have been a meager 3% over the period, with default losses eating away at the bulk of that yield."[7] Spread-based buyers who ignore yield are exposed to the mismatch between their relative-value investment approach and absolute losses.

The markets are behaving as if the world's recovery from COVID-19 will be a linear path. However, we have already seen signs that this may not be the case. We hope for a fast recovery, but we're aware that there are obstacles that could cause the recovery to slow or flounder. We incorporate this conservative view into our assessment of a company's ability to repay its debt at maturity.

With regard to the Fund's investments in private credit, we expect that the 7.5% drawn/invested amount will continue to expand along with increasing commitments during 2021. We are currently targeting to have at least 15% to be invested in or committed to private credit by year-end 2021.[8]

Markets and Economy

It's always good to take stock at the end of a calendar year, and no better time than now with 2020 delivering more than the usual share of surprises.

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[5] Unless otherwise noted, any references to "market" in this Commentary refers to the S&P 500 Index.

[6] Source: Bloomberg. Chart data as of the dates shown.

[7] Hamid, Sherif, Jefferies research, 1/25/21.

[8] This target is increased from the 10% target communicated on September 16, 2020. There is no guarantee this target will be achieved. https://fpa.com/docs/default-source/FPA-News-Documents/source-capital-press-release---09-16-2020.pdf?sfvrsn=4.

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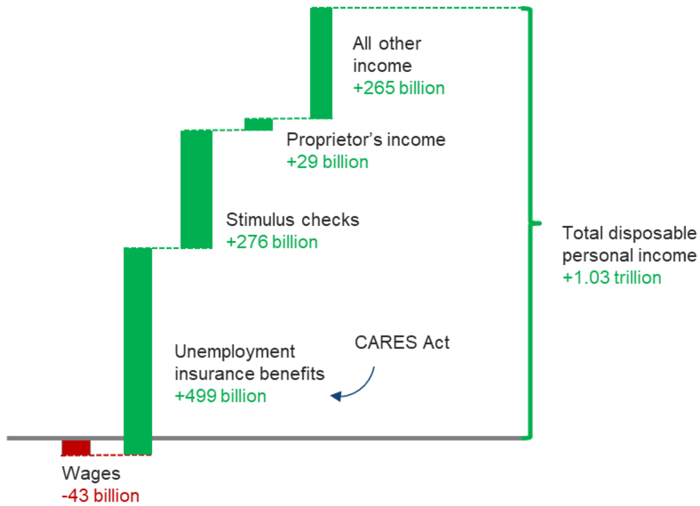
At the end of 2019, no one predicted that the unemployment rate would hit its highest level since the Great Depression and most Americans would struggle financially; U.S. national debt would cross $27 trillion, an increase of almost $5 trillion; GDP would shrink 3.5%; average wages would *decline* but household incomes would *increase,* thanks to government stimulus checks (Exhibit E); yet the stock market would hit new highs, delivering a double-digit rate of return.

***Exhibit E:* Personal Income Increased in 2020 Despite a Decline in Wages in the U.S.**[9]



The economy and, by extension, the securities markets have been supported by the friendliest financial conditions in U.S. history including: a negative real rate of interest, liberal fiscal policy, business subsidies, stimulus checks for most individuals, and a ballooning Fed balance sheet used to buy treasuries, agencies, and now corporate bonds.

People were fearful of what *might* be. As is usually the case, however, more things could happen than will happen. We certainly did not predict that 2020 would unfold as it did, but the three meta-points we believed to be true in the first quarter of 2020, when fear was near its peak, reflect our steady bearing.

Those were:

1) The world wasn't coming to an end. The impact on the Fund's equities was largely a mark-to-market exercise in the midst of the most unsettling series of events that many of us have ever experienced.

2) We added more than a dozen new holdings and were genuinely happy with what we owned.

3) We believed the Fund's equity portfolio of securities at the end of the tumultuous first quarter were attractive.

Investors typically anchor to the average annual market return, while disregarding that the actual annual returns vacillate tremendously around that average.

Ironically, people will one day look back at 2020 and see a year that delivered a market return of approximately 2x the long-term average. There will be less attention paid to the market having declined approximately 34%, only to then rebound approximately 67%.[10] That's comforting in a way as it suggests that this unusual year was not really so abnormal.

Investors focus on average annual stock market returns without often appreciating that the stock market never returns the average. Long-term equity returns are achieved with significant variability around the mean. The MSCI ACWI Net Return Index has returned an average of 6.12% over the past 20 years, but in only three instances were the returns even within 2% of the average. In 65% of the cases, the returns were more than 10 percentage points higher or lower than the average, with a 77% spread between the best and worst years (34.6% in 2009; -42.2% in 2008). Therefore, notwithstanding the tremendous volatility during

[9] Source: Bureau of Economic Analysis. Data is from March 2020 - November 2020 and compared to the same time period in 2019.

[10] Source: Bloomberg. As of December 31, 2020. The 'market' statistics noted refer to the S&P 500 Index.

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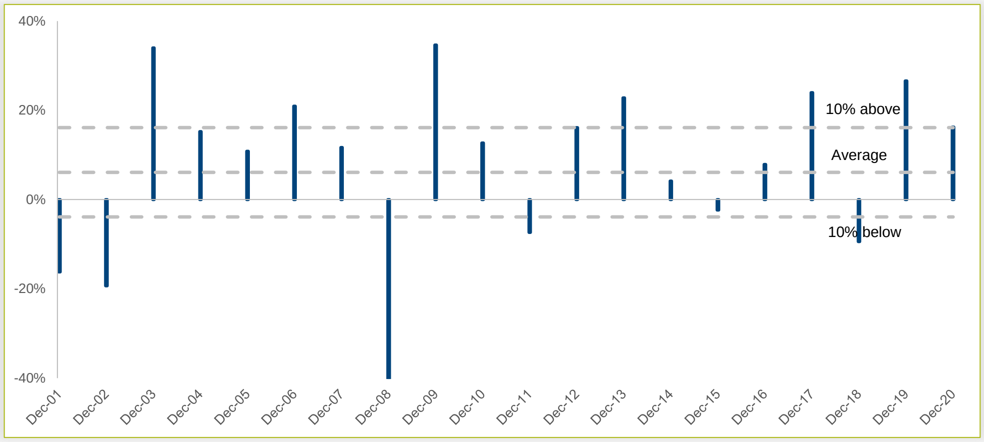
the year, as it relates to the global stock market returns for the full calendar year 2020, it was truly an exceptionally unexceptional year (Exhibit F).

***Exhibit F:* MSCI ACWI Returns 2001 to 2020[11]**

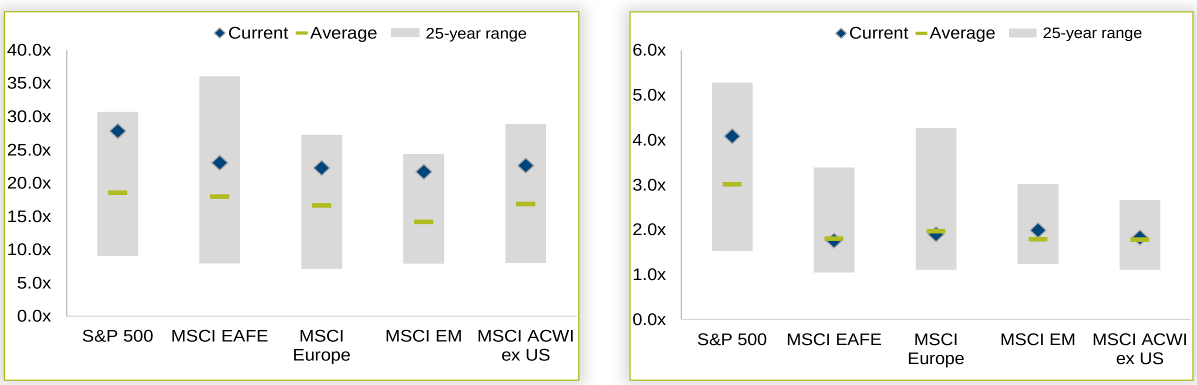


The pendulum swung hard to the downside in March and now has swung even harder to the upside since those market lows. We believe that as emotion is wrung from the stock market, it tends to look forward to what the economy looks like on the other side of a virulent downturn. That happened sooner than we expected. Far be it from us to say this rebound was overdone, but there's little question that the markets are pricing in a COVID-free world (Exhibit G).

***Exhibit G:* Global Valuations[12]**

Price to Earnings Ratio Trailing 12-Month

Price to Book Ratio



In comparison to trailing indicators, large-cap U.S. stocks (S&P 500) trade at 22.3x forward earnings at year-end, 45% higher than the 20-year average.[13] Larger market cap companies based outside the U.S. (ACWI ex-U.S.) trade less expensively at 16.7x, although still 25% higher than its 20-year average. These higher valuations can, in part, be supported by lower interest rates and the higher growth rates of many businesses. However, ~12% of the S&P 500 now trades at more than 10x sales – its largest percentage and more than during the dotcom bubble (Exhibit H). Only time will tell if it is truly different this time, but it has always been dangerous to utter those words during previous periods of market exuberance.

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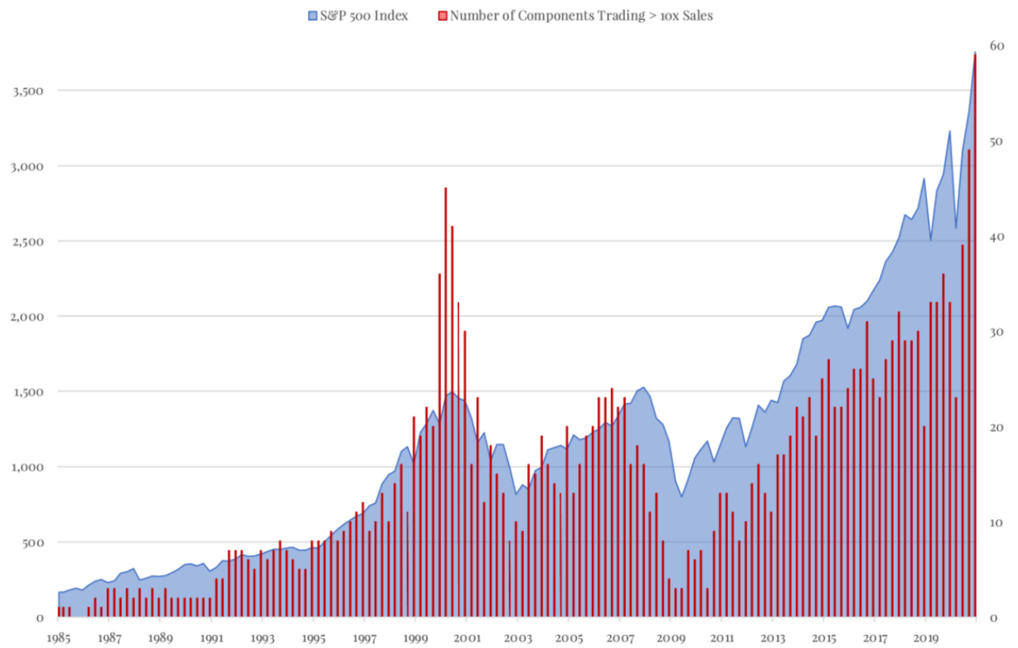
[11] Source: Bloomberg. As of December 31, 2020. MSCI ACWI Net Return Index.
[12] Source: Factset. As of December 31, 2020. Data is represented by the respective indices in the charts.
[13] Source: J.P. Morgan Asset Management, Guide to the Markets. Slide 55. As of December 31, 2020.

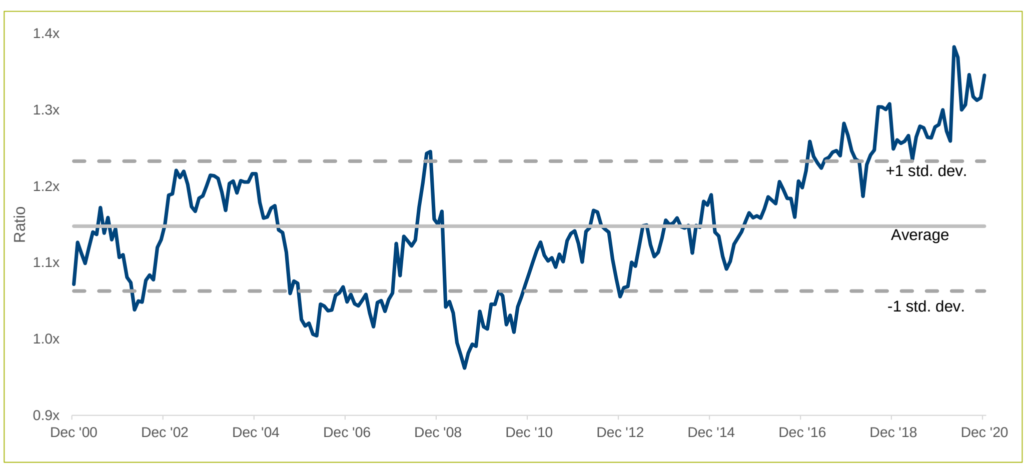
Past performance is no guarantee, nor is it indicative, of future results.

Exhibit H: Valuation Extreme[14]



International stocks continue to trade more inexpensively (relatively) when compared to U.S. stocks even with many operating globally (Exhibit I). A lower valuation on its own, though, does not warrant a place for a stock in our portfolio. Those slots are reserved for growing businesses. We have been fortunate to find many such companies in the last couple of years, which explains our 38.5% exposure (as a percent of equity investments) to foreign-domiciled companies; including global companies like Groupe Bruxelles Lambert, Glencore, Lafargeholcim, and Richemont.[15]

Exhibit I: Relative Forward P/E Ratio of S&P 500 vs. MSCI ACWI ex-U.S.[16]



Generally high valuations create a friendly market for raising capital. This past year was no different. Initial public offering volume hit a record $175 billion; while SPACS, the special purpose acquisition companies that have a "blank check" to invest, have raised more than $60 billion.[17]

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[14] Source: *What were you thinking? Part Tres*. Jesse Felder, The Felder Report. Data as of December 31, 2020. The 'number of components' refers to individual stocks.

[15] Portfolio composition will change due to ongoing management of the Fund.

[16] Source: Factset. As of December 31, 2020.

[17] Source: *A Speculative Frenzy is Sweeping Wall Street and World Markets*. Bloomberg News. As of December 19, 2020.

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According to Bloomberg, "a record $120 trillion of stock changed hands on U.S. stock exchanges last year, up 50% year-over year. The average Russell 3000 stock saw average daily share volume surge 46% to 1.9 million shares."[18] The stocks that performed best were those with better projected prospects than current earnings and companies that were either less impacted by or benefited from the pandemic. Needless to say, we did not own many of these companies. The momentum-driven buying of many individuals, including those utilizing commission-less platforms like Robinhood, have helped drive stock prices higher. Many of these "investors" operate with the core tenet that past performance is indicative of future performance, and have piled into stocks with the aid of record amounts of borrowed money and the use of derivatives (Exhibits J & K).

***Exhibit J:* Margin Debt**[19]

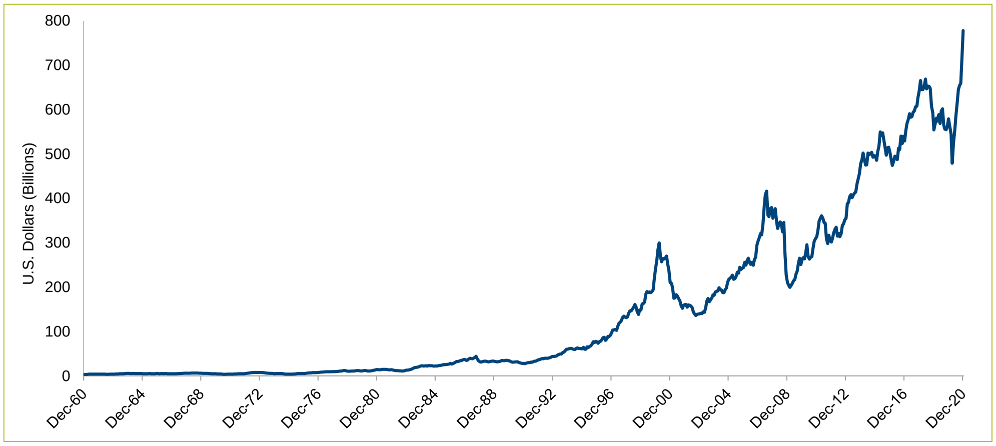
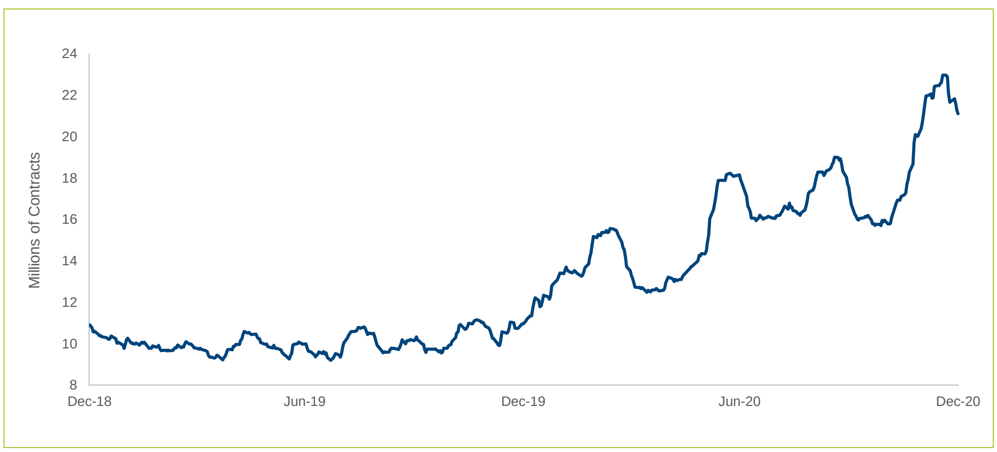


***Exhibit K:* Call Options Traded 20-Day Moving Average**[20]



It's interesting to see how people find solace in different industries in which they have little grasp of the economics, let alone what might be the right price to pay. Momentum, more than understanding, drove the Nifty 50 in the 70s; Oil stocks in the 80s; Tech stocks in the 90s; Diversified industrial stocks and certain financials - like General Electric and Bank of America in the 00s; and now back to technology and healthcare stocks today. [21]

This has led to a clear bifurcation in the market with a widening gulf between the haves and have-nots – as pronounced as we've ever seen it (Exhibit L). The valuations of many "haves" are too rich for our blood and are less likely to deliver reasonable returns over time, despite many high quality businesses in the mix. The

[18] Source: *Day Traders Put Stamp on Market with Unprecedented Stock Frenzy*. Bloomberg Quint. As of January 1, 2021.

[19] Source: Yardeni Research, Inc. As of December 31, 2020. Debit balances in margin accounts at broker/dealers. Beginning in 1997, data reflects debit Balances in customers' securities margin accounts.

[20] Source: Bloomberg. U.S. Total Option Call Volumes. As of December 31, 2020.

[21] Nifty 50 was an informal designation for fifty popular large-cap stocks on the New York Stock Exchange in the 1960s and 1970s that were widely regarded as solid buy and hold growth stocks, or "Blue-chip" stocks.

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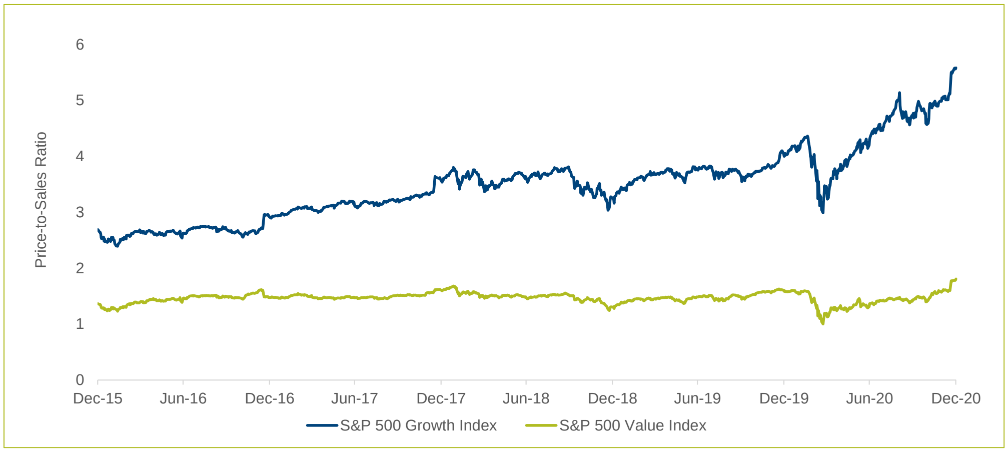
lower valuations of the "have-nots" can often be appropriately justified by the secular challenges these businesses face. As price conscious investors, we focus on the cohort in between. Much of the oxygen in the room has gotten sucked up by those stocks that have been "working", leaving the share prices of many good businesses gasping for air.

***Exhibit L:* Price/Sales: S&P 500 Growth Index vs S&P 500 Value Index**[22]



Grounded in the philosophy of not paying more for an asset than we believe it is worth, our true north remains bottom-up security selection. We evaluate the risk/reward of each of our investments over a three to five-year period, and innately believe that anything less is speculation. As risky as investing in stocks appeared at the March lows, particularly with regard to the financial, travel, and aerospace sectors, we'd argue that higher stock prices today, all else equal, translates to greater risk.

We therefore expend the bulk of our energy and capital on those businesses that we believe offer secular growth, good returns on capital, have operators who are either owners or function with an owner mentality and, finally, trade at prices that should allow for an acceptable rate of return over time.

Investors today are paying more for certainty – or for the illusion of certainty. However, there are numerous companies (many with unproven business models) whose valuations can only be justified by high earnings growth well into the future. Further, achieving those growth rates does not assure good stock price performance. Take Microsoft for example. It posted 19.5% earnings growth through the first decade of the millennium, but its stock price declined 48% in that time.[23] Price may not matter over the short-term, but it certainly does over the long-term. The Fund will hopefully continue to prove that point.

Closing

What was a bad year in March turned into an average year by December, emphasizing how noisy short-term performance can be for long duration assets. From a valuation perspective, we believe we are well-positioned for future performance, although more relatively than absolutely.

Although we do not like losing money, we can't forget about making money. This balance between capital preservation and appreciation must always consider the macro environment: the sovereign desire to inflate, the continued low interest rates, and the negative real return on cash.

We will continue to pay closer attention to how things might unfold over time, rather than to emphasize any moment in time.

Respectfully submitted,

Source Capital Portfolio Management Team

February 2021

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[22] Source: Bloomberg. As of December 31, 2020.

[23] Source: Bloomberg, for the period 12/31/1999 to 12/31/2009. Microsoft's stock price on the respective dates was $58.38 and $30.48.

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Important Disclosures

This Commentary is for informational and discussion purposes only and does not constitute, and should not be construed as, an offer or solicitation for the purchase or sale with respect to any securities, products or services discussed, and neither does it provide investment advice. This Commentary does not constitute an investment management agreement or offering circular.

On December 1, 2015, a new portfolio management team assumed management of the Fund and the Fund transitioned to a balanced strategy. Performance prior to December 1, 2015 reflects the performance of the prior portfolio manager and investment strategy and is not indicative of performance for any subsequent periods.

Current performance information is updated monthly and is available by calling 1-800-982-4372 or by visiting www.fpa.com. Performance data quoted represents past performance, which is no guarantee of future results. Current performance may vary from the performance quoted. The returns shown for Source Capital are calculated at net asset value per share, including reinvestment of all distributions. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions, which would lower these figures. Since Source Capital is a closed-end investment company and its shares are bought and sold on the New York Stock Exchange, your performance may also vary based upon the market price of the common stock.

The Fund is managed according to its investment strategy which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of the comparative indices. Overall Fund performance, characteristics and volatility may differ from the comparative indices shown.

There is no guarantee the Fund's investment objectives will be achieved. You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. You can obtain additional information by visiting the website at www.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.

The views expressed herein and any forward-looking statements are as of the date of this publication and are those of the portfolio management team. Future events or results may vary significantly from those expressed and are subject to change at any time in response to changing circumstances and industry developments. This information and data has been prepared from sources believed reliable, but the accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

Portfolio composition will change due to ongoing management of the Fund. References to individual financial instruments or sectors are for informational purposes only and should not be construed as recommendations by the Fund or the portfolio managers. It should not be assumed that future investments will be profitable or will equal the performance of the financial instrument or sector examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained atwww.fpa.com.

Investing in closed-end funds involves risk, including loss of principal. Closed-end fund shares may frequently trade at a discount or premium to their net asset value.

Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. It is important to remember that there are risks inherent in any investment and there is no assurance that any investment or asset class will provide positive performance over time.

The Fund may purchase foreign securities, including American Depository Receipts (ADRs) and other depository receipts, which are subject to interest rate, currency exchange rate, economic and political risks; these risks may be heightened when investing in emerging markets. Non-U.S. investing presents additional risks, such as the potential for adverse political, currency, economic, social or regulatory developments in a country, including lack of liquidity, excessive taxation, and differing legal and accounting standards. Non-U.S. securities, including American Depository Receipts (ADRs) and other depository receipts, are also subject to interest rate and currency exchange rate risks.

The return of principal in a fund that invests in fixed income securities is not guaranteed. The Fund's investments in fixed income securities have the same issuer, interest rate, inflation and credit risks that are associated with underlying bonds owned by the Fund. Such investments may be secured, partially secured or unsecured and may be unrated, and whether or not rated, may have speculative characteristics. The market price of the Fund's fixed income investments will change in response to changes in interest rates and other factors.

Generally, when interest rates go up, the value of fixed income securities, such as bonds, typically go down (and vice versa) and investors may lose principal value. Credit risk is the risk of loss of principle due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults, the security may lose some or all its value. Lower rated bonds, convertible securities and other types of debt obligations involve greater risks than higher rated bonds.

Mortgage securities and collateralized mortgage obligations (CMOs) are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; such derivatives may increase volatility. Convertible securities are generally not investment grade and are subject to greater credit risk than higher-rated investments. High yield securities can be volatile and subject to much higher instances of default. The Fund may experience increased costs, losses and delays in liquidating underlying securities should the seller of a repurchase agreement declare bankruptcy or default.

The ratings agencies that provide ratings are Standard and Poor's, Moody's, and Fitch. Credit ratings range from AAA (highest) to D (lowest). Bonds rated BBB or above are considered investment grade. Credit ratings of BB and below are lower-rated securities (junk bonds). High-yielding, non-investment grade bonds (junk bonds) involve higher risks than investment grade bonds. Bonds with credit ratings of CCC or below have high default risk.

Private placement securities are securities that are not registered under the federal securities laws, and are generally eligible for sale only to certain eligible investors. Private placements may be illiquid, and thus more difficult to sell, because there may be relatively few potential purchasers for such investments, and the sale of such investments may also be restricted under securities laws.

While the use of leverage may help increase the distribution and return potential of the Fund, it also increases the volatility of the Fund's net asset value (NAV), and potentially increases volatility of its distributions and market price. There are costs associated with the use of leverage, including ongoing dividend and/or interest expenses. There also may be expenses for issuing or administering leverage. Leverage changes the Fund's capital structure through the issuance of preferred shares and/or debt, both of which are senior to the common shares in priority of claims. If short-term interest rates rise, the cost of leverage will increase and likely will reduce returns earned by the Fund's common stockholders.

Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other styles of investing during given periods.

Index Definitions

Comparison to any index is for illustrative purposes only and should not be relied upon as a fully accurate measure of comparison. The Fund may be less diversified than the indices noted herein, and may hold non-index securities or securities that are not comparable to those contained in an index. Indices will hold positions that are not within the Fund's investment strategy. Indices are unmanaged and do not reflect any commissions, transaction costs, or fees and expenses which would be incurred by an investor purchasing the underlying securities and which would reduce the performance in an actual account. You cannot invest directly in an index. The Fund does not include outperformance of any index in its investment objectives.

S&P 500 Index includes a representative sample of 500 hundred companies in leading industries of the U.S. economy. The Index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

S&P 500 Value Index is a subset of the S&P 500 index. Companies within the index are ranked based on growth and value factors including three-year change in earnings price/share, three-year sales/share growth rate, momentum, book value/price ratio, earnings/price ratio, sales/price ratio. The companies at the bottom of this list, that have a higher Value Rank, comprising 33% of the total index market capitalization are designated as the Value basket.

S&P 500 Growth Index is a subset of the S&P 500 index. Companies within the index are ranked based on growth and value factors including three-year change in earnings price/share, three-year sales/share growth rate, momentum, book value/price ratio, earnings/price ratio, sales/price ratio. The companies at the top of this list, that have a higher Growth Rank, comprising 33% of the total index market capitalization are designated as the Growth basket.

MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets.

MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries.

MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 26 Emerging Markets (EM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

MSCI ACWI Growth Index captures large and mid-cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries.

MSCI Emerging Markets ("EM") Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,404 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe Index captures large and mid-cap representation across 15 Developed Markets (DM) countries in Europe. With 438 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries. With 1,585 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 918 constituents, the index covers approximately 85% of the free float- adjusted market capitalization in each country.

ICE BofA US High Yield Index tracks the performance of US dollar denominated below investment grade rated corporate debt publicly issued in the US domestic market.

Consumer Price Index (CPI) is an unmanaged index representing the rate of the inflation of U.S. consumer prices as determined by the U.S. Department of Labor Statistics. The CPI is presented to illustrate the Fund's purchasing power against changes in the prices of goods as opposed to a benchmark, which is used to compare the Fund's performance. There can be no guarantee that the CPI will reflect the exact level of inflation at any given time.

Bloomberg Barclays U.S. Aggregate Bond Index provides a measure of the performance of the US investment grade bonds market, which includes investment grade US Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1-year remaining in maturity. In addition, the securities must be denominated in US dollars and must be fixed rate, nonconvertible, and taxable.

Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Global Aggregate Negative Yielding Debt Index represents the negative yielding segment of the global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

60% S&P 500 / 40% Bloomberg Barclays U.S. Aggregate Bond Index is a hypothetical combination of unmanaged indices and comprises 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index.

60% MSCI ACWI / 40% Bloomberg Barclays U.S. Aggregate Bond Index is a hypothetical combination of unmanaged indices and comprises 60% MSCI ACWI Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index.

Other Definitions

Basis Point (bps) is equal to one hundredth of one percent, or 0.01%. 100 basis points = 1%.

Credit Spread is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality.

Call Options are financial contracts that give the option buyer the right, but not the obligation, to buy a stock, bond, commodity or other asset or instrument at a specified price within a specific time period.

Covenants exist in financial contracts, such as bond issues, that set out certain activities that will or will not be carried out. They are legally binding clauses, and if breached will trigger compensatory or other legal action.

Covenant-lite loans are a type of financing that is issued with fewer restrictions on the borrower and fewer protections for the lender.

Earnings Per Share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Earnings Per Share Growth is defined as the percentage change in normalized earnings per share over the previous 12-month period to the latest year end.

Long Equity Performance represents the performance of stocks that the Fund owned over the given time periods and excludes the long equity portion of a pair trade, short-sales, limited partnerships, derivatives/futures, corporate bonds, mortgage backed securities, and cash and cash equivalents.

Margin debt is debt a brokerage customer takes on by trading on margin. When purchasing securities through a broker, investors have the option of using a cash account and covering the entire cost of the investment themselves, or using a margin account—meaning they borrow part of the initial capital from their broker.

Market Capitalization refers to the total dollar market value of a company's outstanding shares of stock. Commonly referred to as "market cap," it is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.

Market Cycles, also known as stock market cycles, is a wide term referring to trends or patterns that emerge during different markets or business environments.

Net Risk Exposure is a measure of the extent to which a fund's trading book is exposed to market fluctuations. In regards to the Fund, it is the percent of the portfolio exposed to Risk Assets.

Nifty Fifty was an informal designation for fifty popular large-cap stocks on the New York Stock Exchange in the 1960s and 1970s that were widely regarded as solid buy and hold growth stocks, or "Blue-chip" stocks.

Price to Book is used to compare a firm's market capitalization to its book value. It's calculated by dividing the company's stock price per share by its book value per share (BVPS). An asset's book value is equal to its carrying value on the balance sheet, and companies calculate it netting the asset against its accumulated depreciation.

Price to Earnings is the ratio for valuing a company that measures its current share price relative to its EPS. The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

Trailing Price to Earnings is a relative valuation multiple that is based on the last 12 months of actual earnings.

Forward Price to Earnings is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation.

Price to Sales is a valuation ratio that compares a company's stock price to its revenues. It is an indicator of the value that financial markets have placed on each dollar of a company's sales or revenues.

Risk Assets is any asset that carries a degree of risk. Risk asset generally refers to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate and currencies, but does not include cash and cash equivalents.

Special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring an existing company. Also known as "blank check companies."

Standard Deviation is a measure of the dispersion of a set of data from its mean.

Volatility is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security. Volatility is often measured as either the standard deviation or variance between returns from that same security or market index.

You can obtain additional information by visiting the website at www.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.