

SOURCE CAPITAL INC /DE/
Form N-CSR
March 06, 2018

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
(Address of principal executive offices)

90025
(Zip code)

Copy to:

J. RICHARD ATWOOD, PRESIDENT

MARK D. PERLOW, ESQ.

SOURCE CAPITAL, INC.

DECHERT LLP

11601 WILSHIRE BLVD., STE. 1200

ONE BUSH STREET, STE. 1600

LOS ANGELES, CALIFORNIA 90025
(Name and address of agent for service)

SAN FRANCISCO, CA 94104

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

Date of fiscal year end: December 31

Date of reporting period: December 31, 2017

Item 1: Report to Shareholders.

SOURCE CAPITAL, INC.

2017

ANNUAL REPORT

for the year ended December 31

**SOURCE CAPITAL, INC.
LETTER TO SHAREHOLDERS**

DEAR SHAREHOLDERS:**Performance**

During the fourth quarter of 2017, the net asset value per share of Source Capital, Inc. (the "Fund," or the "Company") increased 3.70% for the quarter and 14.01% for the calendar year (both percentages including the reinvestment of the distributions paid during the period). These changes compare with returns of 6.64% for the quarter and 21.83% for the calendar year for the S&P 500 Index, 0.39% for the quarter and 3.54% for the calendar year for the Barclays U.S. Aggregate Bond Index, and 4.12% for the quarter and 14.21% for the calendar year for the 60/40 blended S&P 500/ Barclays U.S. Aggregate Bond benchmark during the same period.

The Fund's top five winners and losers for the fourth quarter of 2017 are presented below. The winners contributed 2.59%, while the losers detracted 1.00%.¹

Winners	Performance Contribution	Losers	Performance Contribution
Q4 2017			
Bank of America	0.62%	General Electric	-0.39%
Mylan	0.62%	Aon	-0.30%
Microsoft	0.50%	Baidu	-0.13%
Cisco Systems	0.42%	Oracle	-0.10%
		American International group	-0.09%
TE Connectivity	0.42%		
2017			
Bank of America	1.25%	General Electric	-0.83%
		American International group	-0.28%
Oracle	1.22%	WPP	-0.26%
Microsoft	1.19%	Rosneft	-0.06%
Arconic	1.09%	Perrigo	-0.04%
TE Connectivity	1.02%		

Source Capital continues to maintain an approximately 60% allocation to equities and 40% allocation to fixed income. As you can see from the tables above, equities continue to be the main drivers of performance for the Fund. Below is a discussion of our thoughts of the equity markets and a summary of our exposures within the fixed income component of the Fund.

Investing In A WTF World

We were recently asked what WTF means. We said, "Wow, that's fantastic!" Now they use it all the time. For the purpose of the following discussion, we will go with that definition although fantastic might mean something dramatically different to each of us.

Man invented the wheel about 6,000 years ago. People could begin to move themselves and their belongings around more easily. Once you had a wheel, your life was better, more productive and you couldn't imagine life without it. The first time someone saw it, he or she probably had one of my mother's WTF moments. Fantastic in one generation becomes ordinary in the next and may even foment further innovation.

If someone fell asleep and awakened 100 years later, how different would he or she find the world? If you fell asleep in Japan late in the 14th century and awakened late in the 15th century, you might be able to study from a book that came from Europe thanks to the printing press. Johannes Gutenberg's mechanical moveable type democratized knowledge. It became easier to teach and learn both old and new ideas.

Significant inventions were infrequent until we get past 1,000 AD. We curated a list of historical inventions and innovations by aggregating lists created by other more qualified sources.² Appreciating the difficulty in assigning exact dates to various inventions, we aggregated inventions into 100-year increments. As you can see in the following chart, the density of innovation was fairly evenly spread in the early years, post wheel. The pace picked up in the first millennium AD and has accelerated dramatically in the last couple of centuries.

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

² [KrysStal](#), January 17, 2018; [The Atlantic](#), November 2013; [The Telegraph](#), January 11, 2018; [ABC News](#), December 1, 2009; [Wired](#), February 1, 2013; [Complex](#), August 18, 2010; [The Richest](#), November 23, 2013; [emaze](#); March 2015; [Wikipedia](#), January 2018

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If one were to extrapolate the innovation pace thus far in the 21st century (e.g., global positioning systems, mapping the human genome, self-driving cars, VOIP, cloud computing, social networking, 3D printing, artificial joints and limbs, synthetic organs, etc.), we would be on pace for more than 180 inventions and innovations this century and the above chart would have to be rescaled.³

Traditional value investing buying a business or asset at a discount that offers the potential for upside appreciation while providing downside protection isn't what it used to be. First, good historic returns for value investors attracted a lot of capital that arbitrated inefficiencies from the market. Then the world began to change ever more quickly. New and rapidly improving technology has created new businesses, harming old ones in the process. Life-altering inventions have allowed us to connect digitally professionally and personally, farm more, live longer and better, drive cleaner and not get lost along the way.

Accelerating change swirls around us, placing us in a middle of a vortex that is not without investment implications. The existential risk to corporations is greater than it has ever been. Businesses are disappearing. Digital photos KO'd Eastman Kodak. Mobile phones continue to cannibalize fixed wire lines, disconnecting the Old Bells. Video on demand replaced Blockbuster. Satellite television stole cable customers but now cable companies offering high-speed data, TV, home and wireless telephone service, a quadruple threat, have begun to take back share. Advances in renewables affect the economics of companies dependent on fossil fuels. Ride share today and autonomously driven cars tomorrow threaten auto manufacturers. And Gutenberg's printing press is being mothballed thanks to PCs, cell phones, tablets and e-readers. The Internet and Facebook are spreading information (thankfully, some of it useful) at greater speed and volume than Herr Gutenberg could ever have imagined.

³ Not that it is remotely reasonable to extrapolate the first 17% of the 21st century.

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Corporate lifespans are getting shorter, as can be seen in the following mortality chart⁴.

Corporations in the 1960s would list on a stock exchange and be expected to remain in the index for at least five years before they were either acquired, bankrupt or overtaken in market capitalization by other public companies. That was expected to be the case more than 90% of the time but those odds have since fallen to the mid-60% range and are continuing to decline.

In the late 1970s and early 1980s, the average company had been in the S&P 500 for almost 40 years. The fervor of the dotcom era temporarily gifted some businesses with very large market capitalizations crowding out more established companies from the index, pushing a company's average tenure from a little more than 30 years to the mid-teens in just a few years. Many of those companies shrank or failed and the average lifespan crept back up to about 25 years. Now, however, many relatively young businesses have disrupted the economics of their older brethren. Innosight, a management consulting firm, published a study that suggests that the average lifespan of a company in the S&P 500 index is expected to hit a new low of 12-13 years.⁵

Investing

A case in point is GE. It is the only company currently listed in the Dow Jones Industrial Index that was included in the original 1896 index. One can only wonder if its Dow days are numbered.

Our investment in GE was a disappointment. We sold our last shares of GE earlier this month.

We expected that GE's pivot away from financial services and towards industrial businesses would result in a stronger and more valuable enterprise. The company did materially shrink its exposure to the finance business but what emerged was a company with too much dependence on its legacy power generation business (and questionable accounting). We reduced our position at a nice gain but were slow to recognize the magnitude of these issues, which GE amplified by its generally poor corporate governance and an entitled corporate culture. Subsequent losses on our remaining stake wiped out our initial profit.

When we model a company's potential outcomes, we do not try to predict earnings this year or next, let alone this quarter. We build a low, base and high case. We make investments in those businesses that should offer a reasonable rate of return in our base case, have upside to the high case and the low case should not be too bad. Furthermore, we expect the base or high cases to be more likely than the low case.

In our low case for GE, we did not expect the massive losses from an insurance business that the company exited in the mid-2000s. Nor did we account for what is tantamount to accounting fraud: the mismarked book of power projects.

We owned GE for over 2 years, with the position ultimately costing the Fund a total of \$2.25mm, or 1.04%.⁶

A small comfort but minimizing the downside is indeed the point of being a value investor. However, the S&P 500 has appreciated approximately 40% since our original 2015 GE purchase. We certainly could (and should) have had that money invested in something else that could have participated along with it.

⁴ Vijay Govindarajan, Anup Srivastava. "Strategy When Creative Destruction Accelerates", September 7, 2016

⁵ Scott D. Anthony, S. Patrick Viguerie and Andrew Waldeck. "Corporate Longevity: Turbulence Ahead for Large Organizations" *Innosight*, Spring 2016

⁶ Including dividends.

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A good investor must always understand the competitive pressures from existing and new businesses and technologies but we would argue that it holds even greater importance today. We have evolved to recognize that many of the better investment opportunities have seen the margin of safety⁷ shift from the balance sheet to the business. A business that can increase its free cash flow over time and appropriately reinvest or distribute that cash flow might afford greater downside protection than another business that could be liquidated at a premium to its current market price but whose cash flow is not growing and, worse, could shrink if it finds itself faced with new, more innovative competition. We face the daily choice of change or decay. We opt for the former. Whereas we once might have been more willing to buy mediocre businesses at unbelievable prices, we are committed to buying good businesses at great prices and great businesses at good prices.

Current portfolio examples of such are Analog Devices, Alphabet (Google's parent), Microsoft, TE Connectivity, Thermo Fisher Scientific, and Baidu. We purchased these companies at inexpensive multiples and held them despite higher multiples due to their long runways for growth, unlike other companies that we have been quicker to sell.

As we pointed out earlier and as has been the case for far too long, such assets and businesses are not inexpensive. This has not, of course, stopped the inexorable march to new market highs. We believe that Mr. Galbraith would opine that the security markets are in the illusion part of the cycle.

Fixed Income Exposure

As we noted earlier, approximately 40% of the Fund is allocated to fixed income. The table below shows the Fund's fixed income exposures as of Dec. 31, compared to the third quarter of 2017 and year-end 2016:

Sector	% Portfolio 12/31/2017	% Portfolio 9/30/2017	% Portfolio 12/31/2016
ABS	63.1%	59.2%	56.6%
Mortgage Backed (CMO ⁸)	9.7%	8.4%	13.1%
Stripped Mortgage-backed	10.5%	11.3%	13.2%
Corporate	6.9%	6.0%	4.4%
CMBS ⁹	3.7%	3.6%	53.0%
Mortgage Pass-through	2.3%	2.6%	3.6%
Municipal	0.0%	0.2%	0.3%
U.S. Treasury	2.7%	2.7%	2.7%
Cash and equivalents	1.2%	6.0%	3.2%
Total	100%	100%	100%
Yield-to-worst	2.80%	2.46%	2.62%
Duration (years)	1.43	1.50	1.33
Average Life (years)	2.00	1.85	2.07

The portfolio expanded its exposure to asset-backed securities (ABS) during the periods shown above. The largest expansion in this segment came in CLOs. Within the collateralized mortgage obligation (CMO) sector we found a few unique ideas to add to the portfolio. In the corporate bond area, the portfolio expanded its holdings in the high-quality technology sector. All these acquisitions were in the two- to three-year maturity range and were purchased as rates rose in that maturity sector in the last two months of the year. As for sales, we continue to cull our GNMA project loan interest-only securities and to sell those holdings we believe no longer have an attractive return profile.

Open Market Repurchases

We started the fourth quarter with the market discount to net asset value of 8.84% and ended the quarter with the discount at 9.54%. We repurchased 3,305 shares in the fourth quarter of 2017 at an average discount of 10.41%. While the number of shares purchased was modest, it was accretive to shareholders by adding \$0.0018 per share to the Fund's NAV.

⁷ Buying with a "margin of safety," is when a security is purchased for less than its estimated value. This helps protect against permanent capital loss in the case of an unexpected event or analytical mistake. A purchase made with a margin of safety does not guarantee the security will not decline in price.

⁸ Collateralized mortgage obligations are mortgage-backed bonds that separate mortgage pools into different maturity classes.

⁹ Commercial mortgage backed securities are securities backed by commercial mortgages rather than residential mortgages.

SOURCE CAPITAL, INC.

As a reminder, Source Capital is authorized to make open-market repurchases of its common stock of up to 10% of the Fund's outstanding shares at such times as the Fund's shares trade at a greater than 10% discount to the Fund's net asset value, when in FPA's judgment such repurchases would benefit shareholders, subject to various factors, including the limitations imposed by the federal securities laws governing the repurchase of an issuer's stock by the issuer and the managers' ability to raise cash to repurchase shares in a tax-efficient manner. There is no assurance that Source Capital will purchase shares at any specific discount levels or in any specific amounts.

Respectfully submitted,

Source Capital Portfolio Management Team

January 22, 2018

SOURCE CAPITAL, INC.

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

The 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 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, 2017

Common Stocks		61.9%
Infrastructure Software	9.0%	
Diversified Banks	7.0%	
Aircraft & Parts	6.8%	
Internet Media	5.3%	
Consumer Finance	3.6%	
P&C Insurance	3.4%	
Insurance Brokers	3.4%	
Communications Equipment	3.2%	
Electrical Components	3.1%	
Semiconductor Devices	2.8%	
Generic Pharma	2.4%	
Advertising & Marketing	2.0%	
Investment Companies	2.0%	
Internet Based Services	1.8%	
Life Science Equipment	1.5%	
Integrated Oils	1.1%	
Electrical Power Equipment	1.0%	
Base Metals	0.9%	
Household Products	0.7%	
Food & Drug Stores	0.6%	
Exploration & Production	0.3%	
Bonds & Debentures		33.1%
Asset-Backed Securities	21.2%	
Commercial Mortgage-Backed Securities	4.7%	
Residential Mortgage-Backed Securities	4.0%	
Corporate Bank Debt	1.7%	
U.S. Treasuries	0.9%	
Corporate Bonds & Notes	0.6%	
Short-term Investments		4.9%
Other Assets And Liabilities, Net		0.1%
Net Assets		100.0%

SOURCE CAPITAL, INC.
SUMMARY FINANCIAL INFORMATION

Calendar 2017

Cash Dividends and Distributions:

Record Date	Payable Date	Amount Paid Per Share	(1) Ordinary Income Dividends	(2) Long-Term Capital Gain Distributions
02/24/2017	03/15/2017	\$ 0.35	\$ 0.1462	\$ 0.2038
05/26/2017	06/15/2017	0.35	0.1462	0.2038
08/25/2017	09/15/2017	0.35	0.1462	0.2038
11/24/2017*	12/15/2017	0.68	0.2840	0.3960
TOTAL		\$ 1.73	\$ 0.7226	\$ 1.0074

* Includes a special cash distribution of \$0.44 per share.

The amounts in column (1) are to be included as dividend income on your tax return and 63.00% 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 2017 tax returns. For corporate shareholders, 46.03% 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, 2017. Therefore, Common shareholders will not receive a Form 2439 for 2017.

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, 2017 none of the distributions paid was 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, 2017

COMMON STOCKS	Shares	Fair Value
INFRASTRUCTURE SOFTWARE 9.0%		
Microsoft Corporation	166,630	\$ 14,253,530
Oracle Corporation	434,720	20,553,562
		\$ 34,807,092
DIVERSIFIED BANKS 7.0%		
Bank of America Corporation	499,567	\$ 14,747,218
Citigroup, Inc.	165,124	12,286,877
		\$ 27,034,095
AIRCRAFT & PARTS 6.8%		
Arconic, Inc.	411,206	\$ 11,205,364
United Technologies Corporation	119,620	15,259,923
		\$ 26,465,287
INTERNET MEDIA 5.3%		
Alphabet, Inc. (Class A)(a)	5,617	\$ 5,916,948
Alphabet, Inc. (Class C)(a)	5,632	5,893,325
Baidu, Inc. (ADR) (China)(a)	36,950	8,654,059
		\$ 20,464,332
CONSUMER FINANCE 3.6%		
Ally Financial, Inc.	271,351	\$ 7,912,595
American Express Co.	59,279	5,886,998
		\$ 13,799,593
P&C INSURANCE 3.4%		
American International Group, Inc.	224,030	\$ 13,347,707
INSURANCE BROKERS 3.4%		
Aon plc (Britain)	97,170	\$ 13,020,780
COMMUNICATIONS EQUIPMENT 3.2%		
Cisco Systems, Inc.	324,260	\$ 12,419,158
ELECTRICAL COMPONENTS 3.1%		
TE Connectivity, Ltd. (Switzerland)	128,350	\$ 12,198,384
SEMICONDUCTOR DEVICES 2.8%		
Analog Devices, Inc.	93,070	\$ 8,286,022
QUALCOMM, Inc.	39,941	2,557,023
		\$ 10,843,045
GENERIC PHARMA 2.4%		
Mylan NV(a)	215,960	\$ 9,137,268
ADVERTISING & MARKETING 2.0%		
WPP plc (Britain)	439,489	\$ 7,957,178
INVESTMENT COMPANIES 2.0%		
Groupe Bruxelles Lambert SA (Belgium)	72,700	\$ 7,849,742
INTERNET BASED SERVICES 1.8%		
Expedia, Inc.	59,453	\$ 7,120,686
LIFE SCIENCE EQUIPMENT 1.5%		
Thermo Fisher Scientific, Inc.	30,380	\$ 5,768,554

See notes to financial statements.

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SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

COMMON STOCKS (Continued)	Shares or Principal Amount	Fair Value
INTEGRATED OILS 1.1%		
Gazprom PJSC (ADR) (Russia)	323,590	\$ 1,427,032
Lukoil PJSC (ADR) (Russia)	37,100	2,122,862
Rosneft Oil Co. PJSC (GDR) (Russia)	145,630	726,694
		\$ 4,276,588
ELECTRICAL POWER EQUIPMENT 1.0%		
General Electric Co.	222,732	\$ 3,886,673
BASE METALS 0.9%		
Alcoa Corporation(a)	26,521	\$ 1,428,686
MMC Norilsk Nickel PJSC (ADR) (Russia)	111,630	2,091,946
		\$ 3,520,632
HOUSEHOLD PRODUCTS 0.7%		
Unilever NV (CVA) (Britain)	48,330	\$ 2,722,860
FOOD & DRUG STORES 0.6%		
Jardine Strategic Holdings, Ltd. (Hong Kong)	61,080	\$ 2,417,546
EXPLORATION & PRODUCTION 0.3%		
Occidental Petroleum Corporation	14,880	\$ 1,096,061
TOTAL COMMON STOCKS 61.9% (Cost		
\$183,971,496)		\$240,153,261
BONDS & DEBENTURES		
COMMERCIAL MORTGAGE-BACKED SECURITIES 4.7%		
AGENCY 0.0%		
Government National Mortgage Association 2011-49 A 2.45% 7/16/2038	\$ 62,310	\$ 62,244
AGENCY STRIPPED 3.5%		
Government National Mortgage Association 2012-58 IO 0.721% 2/16/2053(b)	\$ 12,385,029	\$ 452,547
Government National Mortgage Association 2015-86 IO 0.772% 5/16/2052(b)	2,984,795	163,268
Government National Mortgage Association 2014-171 IO 0.786% 11/16/2055(b)	17,836,837	822,148
Government National Mortgage Association 2013-63 IO 0.79% 9/16/2051(b)	17,734,499	954,324
Government National Mortgage Association 2013-74 IO 0.795% 12/16/2053(b)	19,127,227	959,712
Government National Mortgage Association 2012-79 IO 0.801% 3/16/2053(b)	7,842,026	324,084
Government National Mortgage Association 2013-13 IO 0.803% 7/16/2047(b)	2,881,102	128,078
Government National Mortgage Association 2012-114 IO 0.809% 1/16/2053(b)	16,792,110	918,552
	13,826,314	510,223

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Government National Mortgage Association 2012-109 IO 0.815% 10/16/2053(b)		
Government National Mortgage Association 2013-146 IO 0.818% 11/16/2048(b)	16,751,723	674,540
Government National Mortgage Association 2014-153 IO 0.823% 4/16/2056(b)	12,300,145	698,280
Government National Mortgage Association 2015-19 IO 0.853% 1/16/2057(b)	8,723,543	547,830
Government National Mortgage Association 2014-187 IO 0.91% 5/16/2056(b)	7,632,294	477,252
Government National Mortgage Association 2015-114 IO 0.967% 3/15/2057(b)	2,202,140	131,169
Government National Mortgage Association 2015-108 IO 0.986% 10/16/2056(b)	9,918,094	650,009
Government National Mortgage Association 2016-34 IO 1.003% 1/16/2058(b)	5,664,037	436,708
Government National Mortgage Association 2016-45 IO 1.003% 2/16/2058(b)	15,954,495	1,201,790
Government National Mortgage Association 2016-65 IO 1.009% 1/16/2058(b)	6,415,135	495,888
Government National Mortgage Association 2016-125 IO 1.064% 12/16/2057(b)	3,762,190	301,653
Government National Mortgage Association 2016-106 IO 1.069% 9/16/2058(b)	6,478,075	534,066
Government National Mortgage Association 2016-119 IO 1.126% 4/16/2058(b)	10,806,740	886,470
Government National Mortgage Association 2016-67 IO 1.166% 7/16/2057(b)	15,265,478	1,230,019
		\$ 13,498,610

See notes to financial statements.

SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

BONDS & DEBENTURES (Continued)	Principal Amount	Fair Value
NON-AGENCY 1.2%		
A10 Term Asset Financing LLC 2017-1A A1FX 2.34% 3/15/2036(c)(e)	\$ 463,784	\$ 464,468
A10 Term Asset Financing LLC 2016-1 A1 2.42% 3/15/2035(c)	41,307	41,201
Aventura Mall Trust M 2013-AVM A 3.743% 12/5/2032(b)(c)	970,000	999,507
Bear Stearns Commercial Mortgage Securities Trust 2005-PWR7 B 5.214% 2/11/2041(b)	133,080	134,277
Citigroup Commercial Mortgage Trust 2006-C4 B 6.188% 3/15/2049(b)	8,077	8,156
COMM Mortgage Trust 2014-FL5 B, 1M LIBOR + 2.150% 3.582% 10/15/2031(b)(c)	339,000	338,330
COMM Mortgage Trust 2014-FL5 C, 1M LIBOR + 2.150% 3.582% 10/15/2031(b)(c)	226,000	221,966
Credit Suisse Commercial Mortgage Trust Series 2016-MFF E, 1M LIBOR + 6.000% 7.477% 11/15/2033(b)(c)	878,000	886,750
JP Morgan Chase Commercial Mortgage Securities Trust 2010-C1 A3 5.058% 6/15/2043(c)	191,000	201,017
Latitude Management Real Estate Capital 2016-CRE2 A, 1M LIBOR + 1.700% 2.994% 11/24/2031(b)(c)	444,000	448,440
Madison Avenue Trust M 2013-650M A 3.843% 10/12/2032(c)	277,000	284,997
Morgan Stanley Capital I Trust 2006-HQ9 D 5.862% 7/12/2044(b)	193,215	193,030
SCG Trust 2013-SRP1 AJ, 1M LIBOR + 1.950% 3.427% 11/15/2026(b)(c)	380,000	378,888
Wells Fargo Commercial Mortgage Trust 2015-C26 A2 2.663% 2/15/2048	198,000	198,853
		\$ 4,799,880
TOTAL COMMERCIAL MORTGAGE-BACKED SECURITIES		
(Cost \$18,457,546)		\$18,360,734
RESIDENTIAL MORTGAGE-BACKED SECURITIES 4.0%		
AGENCY COLLATERALIZED MORTGAGE OBLIGATION 1.3%		
Federal Home Loan Mortgage Corporation 4664 TA 3.00% 9/15/2037	\$ 193,189	\$ 195,473

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Federal Home Loan Mortgage Corporation 3770 WA 4.00% 11/15/2028	215,045	216,642
Federal Home Loan Mortgage Corporation 3957 BV 4.00% 10/15/2029	102,332	102,550
Federal National Mortgage Association 2012-117 DA 1.50% 12/25/2039	218,585	211,890
Federal National Mortgage Association 2017-16 JA 3.00% 2/25/2043	841,989	848,854
Federal National Mortgage Association 2016-104 QA 3.00% 11/25/2043	1,262,905	1,271,944
Federal National Mortgage Association 2014-4 KA 3.00% 1/25/2044	92,070	92,381
Federal National Mortgage Association 2017-45 KD 3.50% 2/25/2044	582,645	595,209
Federal National Mortgage Association 2017-52 KC 3.50% 4/25/2044	564,761	577,153
Federal National Mortgage Association 2017-59 DC 3.50% 5/25/2044	815,464	833,370
Federal National Mortgage Association 2003-78 B 5.00% 8/25/2023	257,198	269,803
		\$ 5,215,269
AGENCY POOL FIXED RATE 0.8%		
Federal Home Loan Mortgage Corporation G13122 5.00% 4/1/2023	\$ 232,271	\$ 243,470
Federal Home Loan Mortgage Corporation G15744 5.00% 6/1/2026	300,271	311,276
Federal Home Loan Mortgage Corporation G13145 5.50% 4/1/2023	487,213	513,101
Federal National Mortgage Association MA1212 2.50% 10/1/2022	404,515	406,989
Federal National Mortgage Association AL8274 4.50% 12/1/2018	311,713	313,516
Federal National Mortgage Association 889109 5.00% 1/1/2023	176,112	183,442
Federal National Mortgage Association AE0286 5.00% 4/1/2025	260,604	273,285
Federal National Mortgage Association AL7725 5.00% 9/1/2025	518,076	538,558
Federal National Mortgage Association 256717 5.50% 5/1/2022	154,625	161,859
		\$ 2,945,496
NON-AGENCY COLLATERALIZED MORTGAGE OBLIGATION 1.9%		
BCAP LLC Trust 2010-RR8 2A6 2.968% 11/26/2036(b)(c)	\$ 7,760	\$ 7,748
CIM Trust 2017-7 A, VRN 3.00% 4/25/2057(b)(c)	923,680	925,171
Finance of America Structured Securities Trust 2017-HB1 A 2.321% 11/25/2027(b)(c)(e)	456,577	456,089
Finance of America Structured Securities Trust 2017-HB1 M1 2.84% 11/25/2027(b)(c)(e)	379,000	378,321
	44,577	44,590

Nationstar HECM Loan Trust 2016-3A A
2.013% 8/25/2026(c)

See notes to financial statements.

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SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

BONDS & DEBENTURES <i>(Continued)</i>	Principal Amount	Fair Value
Nationstar HECM Loan Trust 2017-2A A1 2.038% 9/25/2027(b)(c)	\$ 283,342	\$ 283,342
Nationstar HECM Loan Trust 2017-2A M1 2.815% 9/25/2027(b)(c)	316,000	316,543
Nomura Resecuritization Trust 2016-1R 3A1 5.00% 9/28/2036(b)(c)	147,419	152,973
RiverView HECM Trust 2007-1 A, 1 year Treasury + 0.500% 1.81% 5/25/2047(b)(c)	529,660	447,230
Towd Point Mortgage Trust 2016-3 A1 2.25% 4/25/2056(b)(c)	567,086	561,597
Towd Point Mortgage Trust 2015-5 A1B, VRN 2.75% 5/25/2055(b)(c)	240,090	240,151
Towd Point Mortgage Trust 2015-1 AES 3.00% 10/25/2053(b)(c)	475,089	477,369
Towd Point Mortgage Trust 2015-3 A1B, VRN 3.00% 3/25/2054(b)(c)	416,020	417,816
Towd Point Mortgage Trust 2015-4 A1 3.50% 4/25/2055(b)(c)	880,567	893,587
Towd Point Mortgage Trust 2015-2 2A1 3.75% 11/25/2057(b)(c)	1,192,296	1,214,370
VOLT XL LLC 2015-NP14 A1 4.375% 11/27/2045(c)(f)	332,770	333,049
VOLT XXV LLC 2015-NPL8 A1 3.50% 6/26/2045(c)(f)	324,728	324,737
		\$ 7,474,683
TOTAL RESIDENTIAL MORTGAGE-BACKED SECURITIES (Cost \$15,738,086)		\$15,635,448
ASSET-BACKED SECURITIES 21.2%		
AUTO 6.4%		
Ally Auto Receivables Trust 2017-1 B 2.35% 3/15/2022	\$ 101,000	\$ 100,117
Ally Auto Receivables Trust 2017-1 C 2.48% 5/16/2022	191,000	189,429
American Credit Acceptance Receivables Trust 2017-4 B 2.61% 5/10/2021(c)	216,000	215,851
AmeriCredit Automobile Receivables Trust 2017-4 A3 2.04% 7/18/2022	402,000	400,194
AmeriCredit Automobile Receivables Trust 2017-1 C 2.71% 8/18/2022	203,000	201,821
BMW Vehicle Lease Trust 2017-1 A4 2.18% 6/22/2020	501,000	499,849

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BMW Vehicle Lease Trust 2017-2 A4 3/22/2021	2.19%	247,000	246,175
Capital Auto Receivables Asset Trust 2016-3 A3	1.54% 8/20/2020	252,000	251,341
Capital Auto Receivables Asset Trust 2015-2 A3	1.73% 9/20/2019	613,372	613,316
Capital Auto Receivables Asset Trust 2016-1 B	2.67% 12/21/2020	114,000	114,080
CarMax Auto Owner Trust 2017-4 A3	2.11% 10/17/2022	225,000	223,770
Credit Acceptance Auto Loan Trust 2016-2A A	2.42% 11/15/2023(c)	250,000	250,522
Credit Acceptance Auto Loan Trust 2017-2A A	2.55% 2/17/2026(c)	1,351,000	1,350,887
Credit Acceptance Auto Loan Trust 2017-3A A	2.65% 6/15/2026(c)	445,000	444,596
Credit Acceptance Auto Loan Trust 2016-3A B	2.94% 10/15/2024(c)	548,000	545,784
Credit Acceptance Auto Loan Trust 2015-2A B	3.04% 8/15/2023(c)	566,000	567,999
Credit Acceptance Auto Loan Trust 2016-2A B	3.18% 5/15/2024(c)	601,000	601,914
Credit Acceptance Auto Loan Trust 2017-3A B	3.21% 8/17/2026(c)	941,000	934,163
Credit Acceptance Auto Loan Trust 2016-3A C	3.60% 4/15/2025(c)	339,000	341,348
DT Auto Owner Trust 2016-4A B	2.02% 8/17/2020(c)	366,000	365,289
DT Auto Owner Trust 2017-4A B	2.44% 1/15/2021(c)	274,000	273,265
DT Auto Owner Trust 2017-1A C	2.70% 11/15/2022(c)	503,000	500,960
DT Auto Owner Trust 2017-4A C	2.86% 7/17/2023(c)	236,000	236,074
Exeter Automobile Receivables Trust 2016-3A A	1.84% 11/16/2020(c)	251,727	251,443
Exeter Automobile Receivables Trust 2017-1A B	3.00% 12/15/2021(c)	237,000	236,142
First Investors Auto Owner Trust 2016-2A A2	1.87% 11/15/2021(c)	148,000	147,382
First Investors Auto Owner Trust 2016-1A A1	1.92% 5/15/2020(c)	112,855	112,844
First Investors Auto Owner Trust 2016-1A A2	2.26% 4/15/2021(c)	1,096,000	1,095,276
First Investors Auto Owner Trust 2017-1A B	2.67% 4/17/2023(c)	115,000	114,201
First Investors Auto Owner Trust 2017-1A C	2.95% 4/17/2023(c)	219,000	217,436
GM Financial Automobile Leasing Trust 2016-3 C	2.38% 5/20/2020	208,000	206,778
		597,000	590,980

GM Financial Automobile Leasing Trust 2017-2 B 2.43% 6/21/2021		
GM Financial Automobile Leasing Trust 2017-1 B 2.48% 8/20/2020	1,320,000	1,316,118
GM Financial Automobile Leasing Trust 2017-1 C 2.74% 8/20/2020	597,000	594,057
GM Financial Automobile Leasing Trust 2017-2 C 2.84% 6/21/2021	100,000	99,027
Hyundai Auto Lease Securitization Trust 2016-C B 1.86% 5/17/2021(c)	359,000	355,688

See notes to financial statements.

SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

BONDS & DEBENTURES (Continued)	Principal Amount	Fair Value
Hyundai Auto Lease Securitization Trust 2017-C A4 2.21% 9/15/2021(c)	\$ 265,000	\$ 264,525
Nissan Auto Lease Trust 2017-A A3 1.91% 4/15/2020	567,000	564,879
Nissan Auto Lease Trust 2017-B A4 2.17% 12/15/2021	292,000	290,199
Prestige Auto Receivables Trust 2016-1A A3 1.99% 6/15/2020(c)	1,256,000	1,256,299
Prestige Auto Receivables Trust 2016-2A B 2.19% 11/15/2022(c)	673,000	666,725
Prestige Auto Receivables Trust 2017-1A B 2.39% 5/16/2022(c)	319,000	315,197
Prestige Auto Receivables Trust 2017-1A C 2.81% 1/17/2023(c)	787,000	782,678
Prestige Auto Receivables Trust 2016-2A C 2.88% 11/15/2022(c)	327,000	326,184
Santander Drive Auto Receivables Trust 2015-2 B 1.83% 1/15/2020	45,781	45,779
Santander Drive Auto Receivables Trust 2017-3 B 2.19% 3/15/2022	797,000	790,329
Santander Drive Auto Receivables Trust 2014-2 C 2.33% 11/15/2019	404,195	404,621
Santander Drive Auto Receivables Trust 2017-1 C 2.58% 5/16/2022	209,000	207,466
Santander Drive Auto Receivables Trust 2016-2 C 2.66% 11/15/2021	131,000	131,411
Santander Drive Auto Receivables Trust 2013-5 D 2.73% 10/15/2019	437,694	438,744
Santander Drive Auto Receivables Trust 2017-2 C 2.79% 8/15/2022	327,000	325,744
Westlake Automobile Receivables Trust 2016-3A B 2.07% 12/15/2021(c)	1,349,000	1,344,955
Westlake Automobile Receivables Trust 2016-1A B 2.68% 9/15/2021(c)	879,710	879,895
Westlake Automobile Receivables Trust 2017-1A C 2.70% 10/17/2022(c)	411,000	410,678
World Omni Automobile Lease Securitization Trust 2017-A A4 2.32% 8/15/2022	149,000	149,007
World Omni Automobile Lease Securitization Trust 2017-A B 2.48% 8/15/2022	276,000	274,624
		\$24,676,055
COLLATERALIZED LOAN OBLIGATION 5.6%		

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Adams Mill CLO Ltd. 2014-1A B2R 3.35% 7/15/2026(c)	\$ 250,000	\$ 248,077
Black Diamond CLO Ltd. 2014-1A A1R, 3M USD LIBOR + 1.150% 2.503% 10/17/2026(b)(c)	893,000	895,424
BlueMountain CLO Ltd. 2013-4A 3.36% 4/15/2025(c)	250,000	250,766
Cerberus Loan Funding XVIII LP 2017-1A A, 3M USD LIBOR + 1.750% 3.109% 4/15/2027(b)(c)	1,138,000	1,139,854
Cerberus Loan Funding XXI LP 2017-4A A, FRN 3M USD LIBOR + 1.45% 3.001% 10/15/2027(b)(c)	857,000	856,972
CIFC Funding 2013-III Ltd. 2013-3A A2BR 3.40% 10/24/2025(c)	250,000	250,207
CIFC Funding 2013-IV Ltd. 2013-4A A2R 2.72% 11/27/2024(c)	403,000	403,311
Elm Trust 2016-1A A2 4.163% 6/20/2025(c)	356,000	358,948
Flagship VII Ltd. 2013-7A A2R 2.70% 1/20/2026(c)	475,000	475,294
Fortress Credit Opportunities IX CLO Ltd. 2017-9A A1T, FRN 3M USD LIBOR +1.55% 2.966% 11/15/2029(b)(c)	613,000	614,103
Fortress Credit Opportunities IX CLO Ltd. 2017-9A E, FRN 3M USD LIBOR + 7.25% 8.666% 11/15/2029(b)(c)	328,000	319,287
Fortress Credit Opportunities V CLO Ltd. 2014-5A A1FR 3.40% 10/15/2026(c)	683,000	682,559
Fortress Credit Opportunities V CLO Ltd. 2014-5A A2R 3.75% 10/15/2026(c)	178,000	178,027
Fortress Credit Opportunities VII CLO, Ltd. 2016-7I E, 3M USD LIBOR + 7.490% 8.81% 12/15/2028(b)	561,000	563,521
Halcyon Loan Advisors Funding 2015-3A A1R, 3M USD LIBOR + 0.90% 2.904% 10/18/2027(b)(c)	1,089,000	1,089,000
Halcyon Loan Advisors Funding 2015-1A AR, FRN 3M USD LIBOR + 0.92% 2.283% 4/20/2027(b)(c)	1,304,000	1,304,434
Halcyon Loan Advisors Funding 2014-3A AR, 3M USD LIBOR + 1.100% 2.463% 10/22/2025(b)(c)	491,000	492,196
ICG US CLO Ltd. 2014-3A A1BR 2.97% 1/25/2027(c)	933,000	934,394
	250,000	250,756

Ivy Hill Middle Market Credit Fund VII Ltd. 7A AR, FRN 3M USD LIBOR + 1.53% 2.893% 10/20/2029(b)(c)		
Jamestown CLO III Ltd. 2013-3A A1BR 2.753% 1/15/2026(c)	451,000	451,355
MidOcean Credit CLO I 2012-1A A2R, 3M USD LIBOR + 2.500% 3.86% 1/15/2024(b)(c)	504,000	505,584
Nelder Grove CLO Ltd. 2014-1A AFR 3.00% 8/28/2026(c)	250,000	250,454
NewMark Capital Funding CLO, Ltd. 2014-2A AFR 3.077% 6/30/2026(c)	250,000	250,382

See notes to financial statements.

SOURCE CAPITAL, INC.
PORTFOLIO OF INVESTMENTS (Continued)

December 31, 2017

BONDS & DEBENTURES (Continued)	Principal Amount	Fair Value
NewMark Capital Funding CLO, Ltd. 2014-2A BFR 3.669% 6/30/2026(c)	\$ 278,000	\$ 278,524
Northwoods Capital X Ltd. 2013-10A A2R 2.649% 11/4/2025(c)	797,000	797,397
Northwoods Capital X Ltd. 2013-10A B2R 3.442% 11/4/2025(c)	250,000	250,382
Oaktree CLO Ltd. 2014-2A A1BR 2.953% 10/20/2026(c)	293,000	293,426
Ocean Trails CLO V 2014-5A C2R 4.70% 10/13/2026(c)	186,000	187,060
OHA Loan Funding LLC 2014-1A A2R 2.95% 10/20/2026(c)	569,000	567,929
Peaks CLO 1, Ltd. 2014-1A C, 3M USD LIBOR + 3.500% 5.222% 6/15/2026(b)(c)	344,000	344,191
Peaks CLO, 1 Ltd. 2014-1A A, 3M USD LIBOR + 1.750% 3.11% 6/15/2026(b)(c)	839,000	839,117
Senior Credit Fund SPV LLC 2016-1A 3.033% 12/19/2025(e)	925,000	926,665
Silvermore CLO Ltd. 2014-1A A1R, 3M USD LIBOR + 1.170% 2.586% 5/15/2026(b)(c)	664,000	664,222
Symphony CLO XII Ltd. 2013-12A B2R 3.50% 10/15/2025(c)	427,000	427,262
Telos CLO 2013-3A AR, 3M USD LIBOR + 1.300% 2.653% 7/17/2026(b)(c)	461,000	464,222
Telos CLO 2013-3A BR, 3M USD LIBOR + 2.000% 3.271% 7/17/2026(b)(c)	549,000	550,198
Telos CLO, Ltd. 2014-5A A, 3M USD LIBOR + 1.550% 2.903% 4/17/2025(b)(c)	828,000	828,939
Washington Mill CLO Ltd. 2014-1A A2R 2.90% 4/20/2026(c)	250,000	250,308
Washington Mill CLO Ltd. 2014-1A B2R 3.60% 4/20/2026(c)	317,000	317,644
West CLO Ltd. 2014-2A A1BR 2.724% 1/16/2027(c)(e)	233,000	233,000
West CLO Ltd. 2013-1A A1BR 2.745% 11/7/2025(c)	418,000	418,297
West CLO Ltd. 2013-1A A2BR 3.393% 11/7/2025(c)	250,000	250,128
Zais CLO 2 Ltd. 2014-2A A1BR 2.92% 7/25/2026(c)	250,000	250,326
		\$21,904,142
CREDIT CARD 1.5%		

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Cabela's Credit Card Master Note Trust 2016-1 A1 1.78% 6/15/2022	\$ 1,343,000	\$ 1,335,271
Capital One Multi-Asset Execution Trust 2016-A6 A6 1.82% 9/15/2022	1,051,000	1,045,388
Capital One Multi-Asset Execution Trust 2017-A1 A1 2.00% 1/17/2023	1,321,000	1,315,653
Discover Card Execution Note Trust 2014-A4 A4 2.12% 12/15/2021	1,152,000	1,152,540
Synchrony Credit Card Master Note Trust 2015-3 A 1.74% 9/15/2021	1,012,000	1,010,720
Synchrony Credit Card Master Note Trust 2016-3 B 1.91% 9/15/2022	104,000	102,859
		\$ 5,962,431
EQUIPMENT 4.7%		
ARI Fleet Lease Trust 2015-A A2 1.11% 11/15/2018(c)	\$ 36,915	\$ 36,903
ARI Fleet Lease Trust 2016-A A2 1.82% 7/15/2024(c)	221,024	220,865
Ascentium Equipment Receivables LLC 2015-2A B 2.62% 12/10/2019(c)	1,256,000	1,260,861
Ascentium Equipment Receivables Trust 2016-1A A2 1.75% 11/13/2018(c)	150,198	150,165
Ascentium Equipment Receivables Trust 2017-2A A3 2.31% 12/10/2021(c)	288,000	286,389
Avis Budget Rental Car Funding AESOP LLC 2014-2A A 2.50% 2/20/2021(c)	172,000	172,002
Avis Budget Rental Car Funding AESOP LLC 2015-1A A 2.50% 7/20/2021(c)		