FPA U.S. Value Fund, Inc.
First Quarter 2016 Commentary

As of March 31, 2016

Fund/Index Returns	Q4 2015	Q1 2016	Since 9/1/15	1 Year	5 Years	10 Years
FPA U.S. Value Fund	6.14%	-1.07%	-1.32%	-7.22%	8.37%	6.54%
S&P 500	7.04%	1.35%	5.80%	1.78%	11.58%	7.01%
Morningstar Large Blend Average	5.56%	0.30%	2.56%	-1.96%	9.61%	5.98%
Russell 2500	3.28%	0.39%	-0.95%	-7.31%	8.58%	6.47%

Periods greater than one year are annualized. Performance shown is net of fees. On September 1, 2015, the Fund changed its name to FPA U.S. Value Fund, Inc., and the current portfolio manager assumed management of the Fund on that date. Contemporaneous with this change, the Fund transitioned to its current investment strategy. Performance prior to September 1, 2015, reflects the performance of the prior portfolio manager and investment strategy. Performance prior to September 1, 2015 is not indicative of performance for any subsequent periods. The transition took place during time period from September 1, 2015-September 30, 2015. A redemption fee of 2.00% will be imposed on redemptions of shares within 90 days. Expense ratio as of most recent prospectus is 0.85%.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. Current month-end performance data may be obtained by calling toll-free, 1-800-982-4372.

To view portfolio holdings from the most recent quarter end, please refer to the end of this document or at http://fpafunds.com/docs/funf-holdings/u-s-value-fund-03-31-16-for-website-.pdf?sfvrsn=2.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies, charges, and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the fund literature tab on this website, by email at crm@fpafunds.com, toll-free by calling 1-800-982-4372 or by contacting the Fund in writing.

Portfolio composition will change due to ongoing management of the fund. References to individual securities are for informational purposes only and should not be construed as recommendations by the Funds, Advisor or Distributor.

The views expressed and any forward-looking statements are as of the date of the publication and are those of the portfolio managers and/or the Advisor. 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. The accuracy and completeness of the information cannot be guaranteed and is not a complete summary or statement of all available data.

S&P 500 Index includes a representative sample of 500 leading 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. Morningstar Large Blend Average consists of portfolios that invest in a variety of large US stocks. Stocks in the top 70% of the capitalization of the US equity market are defined as large-cap. The blend style is assigned to funds where neither growth nor value characteristics predominate. The Russell 2500 Index consist of the 2,500 smallest companies in the Russell 3000 total capitalization universe offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap.

Fund Risks

Investments in mutual funds carry risks and investors may lose principal value. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. 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. Small and mid-cap stocks involve greater risks and they can fluctuate in price more than larger company stocks. Groups of stocks, such as value and growth, go in and out of favor which may cause certain funds to underperform other equity funds.

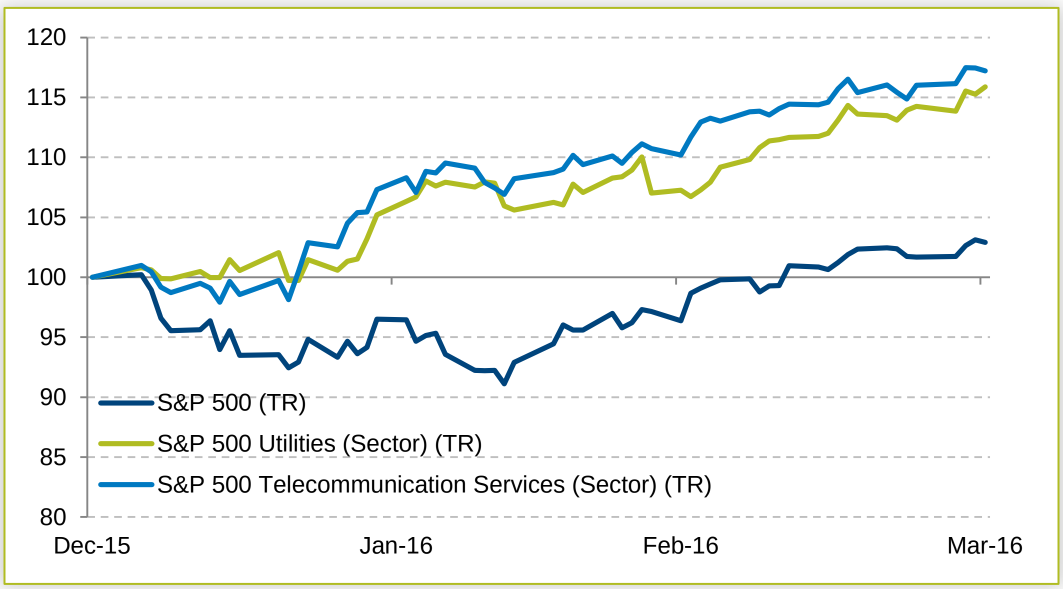
Please consult your tax advisor regarding higher capital gains distributions due to a change in portfolio strategy.

The FPA Funds are distributed by UMB Distribution Services, LLC, 235 W. Galena Street, Milwaukee, WI, 53212.

Dear Fellow Shareholders,

Over any full market cycle, my goal is to provide above-average returns compared to the S&P 500 while minimizing the risk of permanent capital impairment. In any given quarter or year, my style of value investing may not be in vogue, but being a patient, long-term investor in high-quality businesses at cheap prices should put us in a better position to achieve positive returns and outperform the S&P 500 over time.

In the first quarter, the Fund underperformed the total return of the S&P 500 and the Morningstar Large Blend Fund Average by 242 bps and 137 bps, respectively.[1] The Fund was underweight certain outperforming sectors such as consumer staples, telecommunication services and utilities—sectors that collectively make up approximately 17% of the S&P 500. All of these sectors have valuations that I generally view as unattractive. Thanks in part to a decline in long-term Treasury yields, these sectors, which have above-average dividend yields, have benefitted disproportionately from P/E[2] multiple expansions as opposed to better-than-expected future earnings growth.



Source: S&P Dow Jones Indices LLC. Data has been based at 100.

In addition, the Fund was affected by being overweight in certain underperforming industries where I'm finding compelling opportunities, such as healthcare and capital markets.

Exposure to asset management companies (categorized within the capital markets industry), which can perform poorly during periods of market declines and/or high volatility, reduced the Fund's return.

Entering 2016, the Fund had more than 25% of its portfolio invested in healthcare, compared to approximately 15% for the S&P 500. A combination of the political rhetoric around prices for brand pharmaceuticals and Valeant's woes weighed on the sector.

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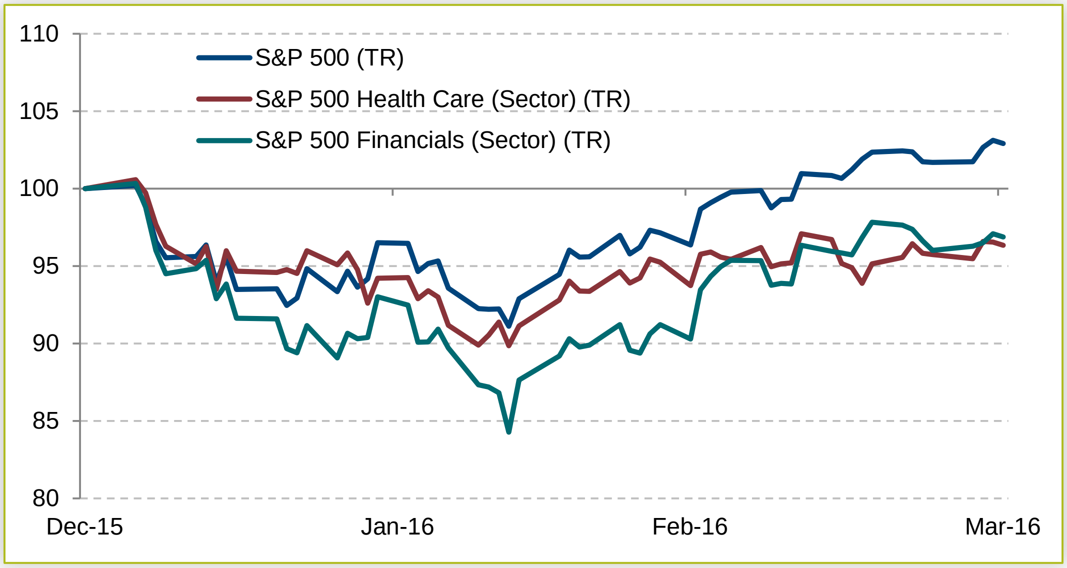
[1] Source: Morningstar.
[2] **P/E** (Price-to-Earnings Ratio) is a ratio for valuing a company that measures its current share price relative to its per-share earnings.



Source: S&P Dow Jones Indices LLC. Data has been based at 100.

Key Performers

Winners[3]	Losers
Whirlpool	McKesson
CBS	Houghton Mifflin Harcourt
Time Warner	Bayerische Motoren Werke
Spirit Airlines	Ameriprise Financial
Ingersoll-Rand	Amgen

On a gross return basis[4], U.S. Value's top five winners contributed approximately 3.31% while its top 5 losers cost the fund 3.58%.

One of the Fund's biggest winners in the quarter was Spirit Airlines (Nasdaq: SAVE). SAVE's stock price declined from the low-to-mid 80s in late 2014/early 2015—when it traded north of a 20x forward P/E multiple—to below $40 in Q4 2015. At that point, it was trading at approximately 9x forward EPS[5] and that's when the Fund made its investment. SAVE's stock price declined throughout 2015 after it missed quarterly consensus estimates and lowered its outlook for 2016. This was primarily due to adding too much capacity into increasingly competitive routes where some of the major airlines defended their market share by lowering fares more than they had historically.

The market worried that SAVE's management would continue adding capacity on those more competitive routes regardless of the prospective return on capital. Those fears, in part, led to a CEO change with a current board member, Robert Fornaro, taking over the controls. Fornaro was the CEO of AirTran, which was sold to Southwest Airlines in 2011. He is, therefore, a known commodity in the low-cost airline industry.

[3] Reflects top five contributors and top five detractors to the Fund's performance based on contribution to return basis.
[4] Gross returns are before fees and expenses.
[5] **EPS** (Earnings Per Share) is the portion of a company's profit allocated to each outstanding share of common stock. It serves as an indicator of a company's profitability.

Entering 2016, SAVE was a 3.0% position in the Fund. During Q1 2016, the stock price increased 22.5%. As the future expected return has declined, so has the position size, which stood at 2.3% on March 31.

SAVE is the largest Ultra Low Cost Carrier (ULCC) in the United States. Its business model is unique in that it doesn't operate a traditional high-cost hub-and-spoke model akin to major airlines like Delta, United and American. But it's not like low-cost carrier (LCC) Southwest Airlines, either, because it doesn't operate multiple flights a day to and from pairs of cities.

SAVE's business model is to be a route "skimmer." It generally offers direct flight service on routes with below-average competition and above-average fares. On those routes, SAVE will often offer one or two non-stop flights a day during off-peak times and at prices well below the major airlines. This gives it more flexibility to adjust capacity to optimal levels based on supply-demand changes.

There are many other aspects that help make SAVE an ULCC. Like Southwest, it only flies one type of aircraft, which helps keep maintenance and pilot training costs low. And it only offers one class of service—a very cheap base fare that Spirit says covers "your a** + gas." The airline allows passengers to carry on one personal item that fits under the seat and everything else is an additional charge—from storing your rollaway suitcase in the overhead bin to getting an assigned seat. SAVE crams the maximum number of seats onto every plane so there is less legroom and seats don't recline. Flight attendants clean planes, serve as gate agents and carry out other tasks in addition to their main job. The airline also uses cheaper regional and secondary airports. What's more, SAVE turns around aircraft quickly and flies at all hours, which helps it maximize daily flight time. All of these things help lower the cost per available seat mile (CASM), giving the carrier a structural competitive advantage because those savings are passed on to the consumer in the form of cheaper fares.

SAVE has proven that its offering taps an underserved part of the market: leisure consumers with a below average income. SAVE's low fares and modest offering increases demand but the capacity it adds to markets generally doesn't cannibalize the business of major airlines, which typically target business customers. ULCCs make up just 5% of the U.S. airline market compared to 23% in Europe (think Ryanair, EasyJet, etc.). That alone leads me to believe that SAVE has a long runway for growth into new routes throughout the United States.

One of the Fund's biggest losers in the quarter was McKesson (NYSE: MCK), the largest U.S. pharmaceutical drug distributor. On Jan. 11th, the Company revised its FY2016 guidance. The new outlook was prompted by lower-than-expected price inflation for generic drugs.

What's more, McKesson customer CVS—which recently acquired Target's drugstores along with the largest institutional pharmacy provider, Omnicare—decided to move most of the distribution for both firms' pharmaceuticals to its joint venture with Cardinal Health. The loss of this business will reduce McKesson's EPS growth rate to a range of 7% to 12% for FY2017, well below its historical high-teens growth rate.

Finally, should Walgreens's pending acquisition of Rite Aid, another McKesson customer, receive approval from the Federal Trade Commission, McKesson would likely take an approximate 5% to 7% hit to its FY2018 EPS.

McKesson's customer losses can generally be characterized as just bad luck since none of them were due to a competitor "winning" the business. Rather, the business is being lost because the acquirer of its customers is consolidating the business within its joint venture so it can capture more of the distribution economics. The company is partly offsetting the lost revenue with an expanded distribution agreement with Albertsons and recent acquisitions, such as the purchase of Rexall Health, one of the largest drugstore chains in Canada.

This negative news has now likely been factored in by the market given MCK's stock price decline of 19.22% in the quarter. McKesson now trades at 11.6x forward EPS, which is more than a 20% discount compared to its 10-year forward average P/E of 14.8x. This valuation is also a material discount to its main competitors, Cardinal Health and AmerisourceBergen, both of which trade at approximately 14.1x forward EPS. After FY2018, I believe MCK's normalized, long-term EPS growth rate should be double digits. That would basically be in-line with its main competitors and well above the S&P 500's long-term expected mid single-digit growth rate for earnings. In my opinion, the market has overreacted to MCK's transitory issues, so the Fund purchased more shares during the quarter and the company remains one of our largest investments.

Portfolio Activity

Few people could have foreseen that the S&P 500 would decline 10.27% during the first six weeks of the year only to recoup its losses over the following four weeks. Great sector performance disparities in the quarter provided opportunities to reallocate capital to better values in the market in an effort to maximize long-term, risk-adjusted returns. I have a large taxable investment in the Fund so our interests to maximize after-tax returns are aligned.

To briefly review major portfolio changes in the first quarter, I was able to take advantage of stock price declines within healthcare to improve both the portfolio's quality and increase its exposure to this sector. I reduced our holdings in pharmaceutical manufacturers in order to increase investment in the pharmaceutical supply chain. While the stock prices of the supply chain companies were hit along with drug manufacturers, the distributors, drugstores and pharmacy benefit managers would be much less affected if the government enacted price controls on brand drugs. These healthcare investments position the Fund well to benefit from the powerful long-term tailwinds of aging demographics, brand-to-generic conversions, growth in biosimilars and new drug therapy approvals.

Portfolio Profile

At the end of the quarter, the Fund had 26 disclosed positions, up from 24 at the end of last year. Since I continue to find the most value in large-cap companies, the weighted average market capitalization of the Fund's disclosed holdings was approximately $50 billion at quarter-end compared to $44 billion at year end. The top 10 positions accounted for about 47% of the portfolio as of March 31, 2016. As of March 31, of the disclosed investments, approximately 76% of the portfolio was in large-cap companies, 9%-10% in mid-cap and 2%-3% in mega-cap. Cash and equivalents accounted for the remaining 10%.

Based on consensus estimates for 2016, at the end of the first quarter, the portfolio had a forward weighted average P/E of 12.2x and a forecasted EPS growth rate of 11.0% over the next two years. The investment portfolio was priced at an approximate 25% discount to my estimate of its intrinsic value, similar to where it stood at the end of the fourth quarter.

Conclusion

I remain enthusiastic about the Fund's investments and their prospective returns over the long term. Compared to the market, I believe our portfolio is higher in quality, possesses better potential for earnings growth and is less financially levered. Even better, based on consensus estimates, our portfolio's securities in the aggregate trade at a material discount to the S&P 500's forward P/E and to my estimate of their intrinsic value.

I look forward to delivering value for shareholders over the coming years. Your confidence and continued support is truly appreciated.

Respectfully submitted,

Gregory R. Nathan
Portfolio Manager

April 2016

FPA U.S. Value Fund, Inc.

Portfolio Holdings

03/31/16

TICKER	SHARES	SECURITY	MKT PRICE ($)	MKT VALUE ($)	% OF NET ASSET VALUE
ABBV	56,050	ABBVIE INC	57.12	3,201,576.00	2.00%
AET	28,400	AETNA INC	112.35	3,190,740.00	1.99%
AMP	81,175	AMERIPRISE FINANCIAL INC	94.01	7,631,261.75	4.77%
AMGN	93,690	AMERISOURCEBERGEN CORP	86.55	8,108,869.50	5.07%
ANTM	49,950	ANTHEM INC	138.99	6,942,550.50	4.34%
AAPL	30,500	APPLE INC	108.99	3,324,195.00	2.08%
BMW GY	49,250	BAYERISCHE MOTOREN WERKE AG*	91.83	4,522,554.31	2.83%
CAH	100,190	CARDINAL HEALTH INC	81.95	8,210,570.50	5.13%
CBS	146,600	CBS CORP CLASS B NON VOTING	55.09	8,076,194.00	5.05%
CVS	37,400	CVS HEALTH CORP	103.73	3,879,502.00	2.42%
DAI GY	89,000	DAIMLER AG REGISTERED SHARES*	76.66	6,822,767.55	4.26%
DAL	80,850	DELTA AIR LINES INC	48.68	3,935,778.00	2.46%
DISCK	192,050	DISCOVERY COMMUNICATIONS C	27.00	5,185,350.00	3.24%
HMHC	174,680	HOUGHTON MIFFLIN HARCOURT CO	19.94	3,483,119.20	2.18%
IR	54,300	INGERSOLL RAND PLC	62.01	3,367,143.00	2.10%
IVZ	211,950	INVESCO LTD	30.77	6,521,701.50	4.08%
MSG	33,100	MADISON SQUARE GARDEN CO A	166.36	5,506,516.00	3.44%
MCK	53,250	MCKESSON CORP	157.25	8,373,562.50	5.23%
		OTHER		3,352,275.00	2.10%
PRGO	32,600	PERRIGO CO PLC	127.93	4,170,518.00	2.61%
LUV	115,400	SOUTHWEST AIRLINES CO	44.80	5,169,920.00	3.23%
SAVE	76,400	SPIRIT AIRLINES INC	47.98	3,665,672.00	2.29%
TPX	41,100	TEMPUR SEALY INTERNATIONAL I	60.79	2,498,469.00	1.56%
TWX	95,900	TIME WARNER INC	72.55	6,957,545.00	4.35%
FOXA	255,250	TWENTY FIRST CENTURY FOX A	27.88	7,116,370.00	4.45%
WBA	46,400	WALGREENS BOOTS ALLIANCE INC	84.24	3,908,736.00	2.44%
WHR	38,200	WHIRLPOOL CORP	180.34	6,888,988.00	4.31%
		TOTAL EQUITIES:		**144,012,444.31**	**90.01%**
		CASH & EQUIVALENTS (NET OF LIABILITIES):		**15,982,561.94**	**9.99%**
		TOTAL NET ASSETS:		**$ 159,995,006.25**	**100.00%**
		NO. OF EQUITY POSITIONS:		**26**	

* Indicates Foreign Security

Portfolio Holding Submission Disclosure

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