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

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 and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by calling toll-free, 1-800-982-4372, or by contacting the Fund in writing.

Average Annual Total Returns

As of December 31, 2016

	QTR	YTD	1 Year	5 Years	10 Years
FPA U.S. Value Fund, Inc.	4.12%	-2.00%	-2.00%	10.50%	6.69%
S&P 500	3.82%	11.96%	11.96%	14.66%	6.95%
Russell 2500	6.12%	17.59%	17.59%	14.54%	7.69%

Periods greater than one year are annualized. Performance is calculated on a total return basis which includes reinvestment of all distributions.

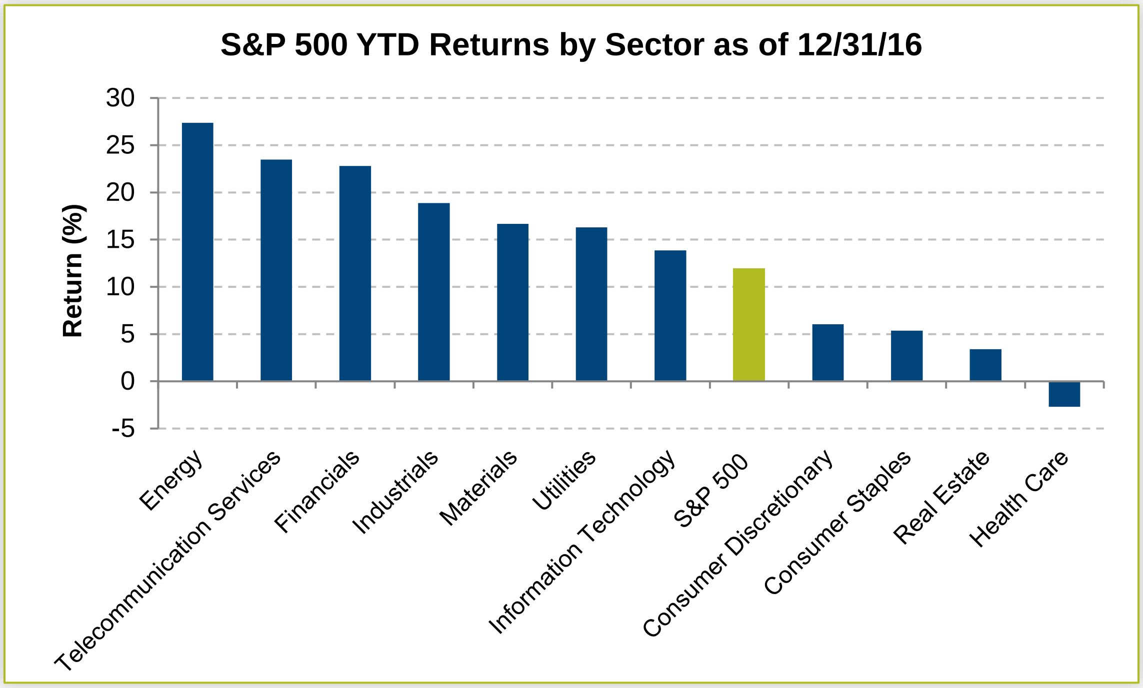
Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. The Fund's expense ratio as of its most recent prospectus is 0.97%. A redemption fee of 2% will be imposed on redemptions within 90 days. Current month-end performance data may be obtained at www.fpafunds.com or by calling toll-free, 1-800-982-4372.

Please see important disclosures at the end of the commentary.

Dear Fellow Shareholders,

In the fourth quarter, FPA U.S. Value Fund (the "Fund") gained 4.12%. It outperformed the total return of the S&P 500 and the Morningstar Large Blend Fund Average by 0.30% and 0.26%, respectively. For calendar 2016, the Fund returned -2.00% compared to the S&P 500 and the Morningstar Large Blend Fund Average returns of 11.96% and 10.37%, respectively.[1]

While the Fund outperformed in the fourth quarter, it underperformed in 2016. This was largely driven by sector exposures. During 2016, the Fund had no exposure to Energy, Telecommunications Services, Materials and Utilities—four of the top-performing sectors. Additionally, the Fund was underweight Financials, Industrials and Information Technology—three other top-performing sectors. At the same time, the Fund was heavily overweight Consumer Discretionary and Healthcare—two of the worst-performing sectors in the market. Lastly, the Fund held approximately 10% of cash on average throughout the year.



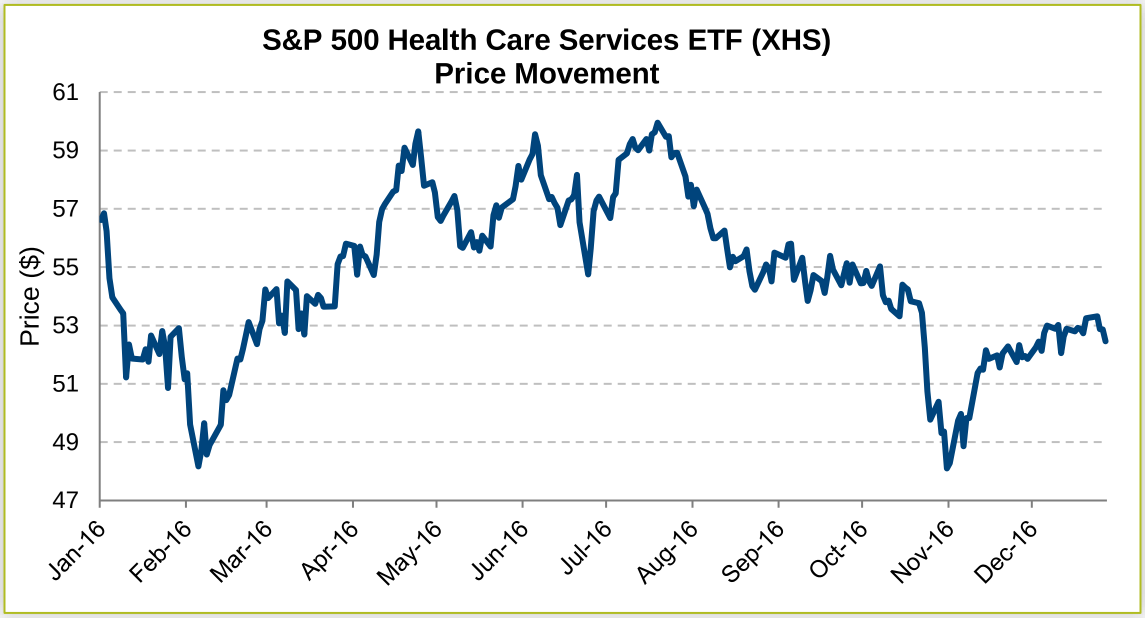
Source: S&P Dow Jones Indices LLC.

Key Performers

It is worth re-emphasizing that the Fund's sector exposures are not driven by a top-down view. Rather, they are based on where I believe the market offers high-quality businesses within secularly healthy, growing industries at attractive valuations.

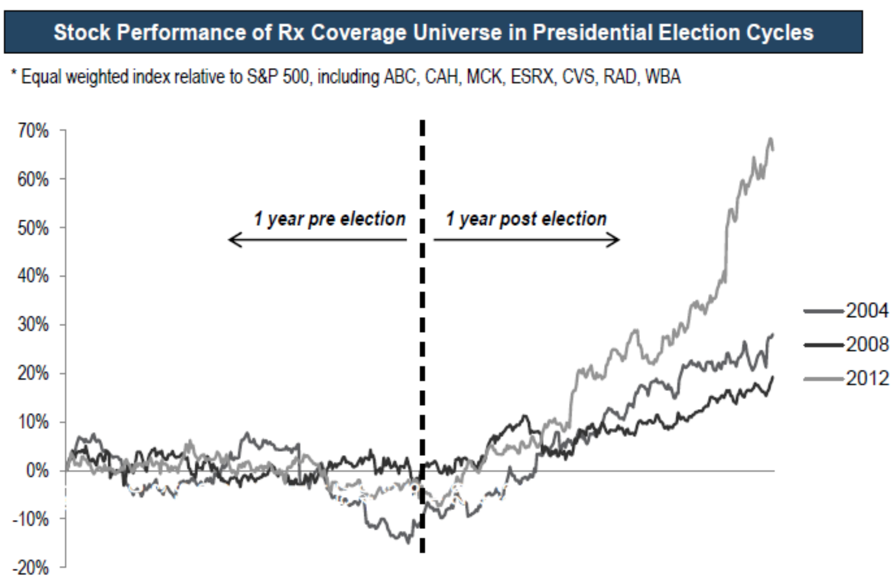
Within healthcare, the majority of the Fund's exposure is in the pharmaceutical services industry, which has been under pressure in part because of public criticism over the ever-increasing prices of branded drugs. For 2016, the healthcare services industry was down over 8%.

[1] Source: Morningstar.



Source: Google Finance. Past performance is no guarantee of future results.

In 2016 and the three previous U.S. Presidential elections, the pharmaceutical supply chain underperformed the market in the year prior to the vote. However, in the year following the 2004, 2008 and 2012 U.S. Presidential elections, the industry enjoyed meaningful outperformance. Of course, past performance does not guarantee future results.



Sources: Bloomberg, J.P. Morgan

Winners[2]	Performance Contribution	Losers[2]	Performance Contribution
Tempur Sealy International	1.40%	McKesson	-1.07%
Time Warner	0.88%	CVS Health	-0.61%
Twenty First Century Fox	0.83%	Cardinal Health	-0.44%
Anthem	0.66%	Houghton Mifflin Harcourt	-0.40%
CBS Corp	0.61%	Walgreens Boots Alliance	-0.22%

YTD 2016 Winners[2]	Performance Contribution	YTD 2016 Losers[2]	Performance Contribution
Time Warner	1.99%	Houghton Mifflin Harcourt	-2.03%
CBS	1.43%	McKesson	-1.85%
Tempur Sealy International	1.26%	CVS Health	-0.98%
Whirlpool	1.12%	Bayerische Motoren Werke	-0.81%
Ingersoll-Rand	0.81%	Cardinal Health	-0.71%

The Fund's top five winners for the fourth quarter contributed approximately 4.37%, while its top five losers cost the Fund approximately 2.75%. For the calendar year 2016, the Fund's top five winners contributed approximately 6.61%, while its top five losers cost the Fund approximately 6.37%. Media helped the Fund's performance in the fourth quarter and throughout 2016 with three and two of the top five winners, respectively. Conversely, pharmaceutical services exposure hurt the Fund's performance in the fourth quarter and throughout 2016 with four and three of the top five losers, respectively.

One of the Fund's biggest winners in Q4 and 2016 was Time Warner (NYSE: TWX). On October 22, 2016 AT&T announced it would acquire TWX in a 50% stock and 50% cash transaction valued at $107.50 per share. The transaction is expected to close by the end of 2017.

Initially, the market's reaction was one of great skepticism that this transaction would receive anti-trust approval. This was in part due to the political rhetoric prior to the Presidential election that saw the two leading candidates voice their objections to the deal. As a result, the stock traded at a significant discount to the offer price and languished in the mid- to high 80s in the three weeks following the deal's announcement. In mid-November, as the market began to focus more on the facts behind this vertical integration and to look to the precedent of the successful Comcast-NBC Universal merger in 2011, TWX rose to the low-90s and closed the year at $96.53. The stock still trades at more than a 10% discount to the acquisition price. While I believe there is a high probability that this transaction will close, the upside is now partially capped, so I trimmed the Fund's position size during the quarter.

One of the Fund's biggest losers in Q4 and 2016 was CVS Health (NYSE: CVS). On Nov. 8, 2016, CVS announced its Q3 results and provided a preliminary outlook for 2017 that was well below consensus estimates. This negative surprise largely stemmed from the decision by Tricare, the health care program for U.S. uniformed service members and their families, and Prime Therapeutics, the fourth-largest pharmacy benefits manager (PBM), to build a restricted pharmacy network with Walgreens as the cornerstone piece. CVS stores were excluded, and as a result, the company will lose more than 40 million prescriptions. Since these prescription losses are spread across many stores and geographic regions, there is not much in the way of variable expenses it can cut over the short-term to help offset the gross profit lost from these sales. As a result, CVS expects its 2017 EPS[3] to only increase slightly compared to prior consensus expectations of double-digit growth.

[2] Reflects the top contributors and top detractors to the Fund's performance based on contribution to return for the quarter. Contribution is presented as the gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented.
[3] 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.

While this was certainly disappointing news that impacted the stock price, it does not change CVS' enviable competitive position as the leading player in retail pharmacy, pharmacy benefits management, specialty pharmacy and infusion as well as institutional pharmacy. Its vertical integration provides it with unique competitive advantages that are practically impossible to replicate. Until this recent setback, CVS' PBM and retail pharmacy businesses had been gaining market share every year since 2011. Its fantastic run from 2011 onward came on the heels of a poor 2010 selling season that saw its PBM lose a significant amount of business because of poor customer service during a difficult merger integration with its retail pharmacy business.

Ultimately, the power of CVS' vertically integrated model proved itself a success, which can be seen in its robust EPS growth of ~13% per annum since then. I believe 2017 will likely be another speed bump on a long road of further market share gains across its various pharmacy-related businesses, which serve a growing market fueled by aging U.S. demographics. Beyond 2017, management expects EPS can rise at an approximate 10% CAGR[4]. This will be accomplished through a combination of organic revenue growth, expense reductions, share repurchases and strategic acquisitions.

CVS trades at an undemanding 13.5x forward EPS. Management's guidance for 2017 EPS is based on a ~39% effective tax rate. This is because CVS earns all of its profits in the U.S. Should there be some kind of U.S. corporate tax reform that reduces tax rates to ~25%, CVS would be trading at just ~11x forward EPS. Compare this to Walgreens Boots Alliance (NYSE: WBA), which trades at 16.6x forward EPS and already has an effective tax rate of ~25% thanks in part to its large non-U.S. business. After integrating Rite Aid (assuming Federal Trade Commission approval), I believe WBA's long-term EPS growth rate should approximate CVS' ~10%. Therefore, I expect the valuation of both companies to converge over time.

Portfolio Activity

Performance disparities within certain sectors provided opportunities to continue to reallocate capital to better values in the market to maximize the Fund's long-term, risk-adjusted returns.

For example, because of WBA's growing valuation premium compared to CVS and the big three distributors (MCK, CAH and ABC), I sold WBA and allocated more capital to those four companies. In addition, I bought back Allergan (NYSE: AGN) and added HCA Holdings (NYSE: HCA) and Rite Aid (NYSE: RAD) to the portfolio. Overall, disclosed healthcare-related exposure increased less than 1%.

Including media, the portfolio's disclosed exposure to the Consumer Discretionary sector increased ~9.3% during Q4. Within media, as the valuation of TWX and CBS Corporation (NYSE: CBS) expanded, those positions were trimmed, while Twenty-First Century Fox, Inc. (NASDAQ: FOXA) grew by appreciation. At the same time, I added Disney (NYSE: DIS), AMC Entertainment (NASDAQ: AMCX) and Discovery Communications (NASDAQ: DISCK) to the Fund. Overall, disclosed exposure to media increased by about 4%.

Existing positions in Tempur Sealy International, Inc. (NYSE: TPX), The Madison Square Garden Company (NYSE: MSG) and Whirlpool Corporation (NYSE: WHR) increased, which accounted for a little over 5% of the added exposure in the Consumer Discretionary sector. In addition, I established new positions in Dollar General (NYSE: DG) and sold Norwegian Cruise Line Holdings Ltd. (NASDAQ: NCLH), which nearly offset each other.

Since the Presidential election, two of the strongest-performing sectors have been Financials and Industrials, where valuations have expanded meaningfully. A majority of the Fund's disclosed exposure to Financials has been eliminated, as Invesco Ltd. (NYSE: IVZ) and Ameriprise Financial Inc. (NYSE: AMP) were sold and partially replaced with a small position in Citigroup (NYSE: C). At the same time, disclosed exposure to Industrials was reduced by ~2.4%. I sold Spirit Airlines (NASDAQ: SAVE) and Ingersoll-Rand Plc (NYSE: IR), and trimmed the Southwest Airlines Co. (NYSE: LUV) position. However, a new position in Regus plc (LSE: IWG), the largest global office outsourcing services company, was established.

[4] CAGR is the compound annual growth rate.

Lastly, one of the weaker-performing sectors right after the election was Information Technology. During that sell-off, the Fund added to its investment in Alphabet Inc. (NASDAQ: GOOG) and bought back Apple Inc. (NASDAQ: AAPL).

Cash and equivalents declined by approximately 2.5% to end the quarter at nearly 8% of the portfolio.

In terms of disclosed sector exposures at the end of 2016 compared to 2015, there were some notable changes. The industries where I continue to find the most value, several of which underperformed the market in 2016, have become bigger weights in the portfolio. Consumer Discretionary has increased from 39.0% to 42.9% while Health Care increased from 25.3% to 28.1% of the portfolio. A couple of the stronger performing sectors the Fund had some exposure to such as Industrials and Financials had their weights reduced. Industrials were reduced from 10.8% to 6.4% while Financials decreased from 11.4% to 1.2% of the portfolio. Two sectors the Fund had no exposure to at the end of 2015, Information Technology and Consumer Staples, at the end of 2016 made up 7.1% and 6.8% of the portfolio, respectively. Lastly, what remained the same at the end of 2016 versus 2015: the Fund continues to have no exposure to Energy, Utilities, Real Estate, Materials and Telecommunication Services.

Portfolio Profile

At the end of the quarter, the Fund had 25 disclosed positions, compared to 21 at the end of the third quarter. 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 $77 billion at quarter-end compared to approximately $56 billion at the end of the third quarter. However, the median market cap was approximately $28 billion.

The top 10 positions accounted for about 59% of the portfolio as of Dec. 31, 2016. As of that date, approximately 66% of disclosed investments were in large-cap companies, 19% in mid-cap and 7% in mega-cap. The Fund's exposure to U.S. equities was 90%, with just one non-U.S. domiciled investment, Regus plc, making up approximately 2% of the portfolio. However, it is worth noting that the U.S. is Regus' largest market and makes up nearly half of its business.

The investment portfolio ended the fourth quarter priced at an approximate 23% discount to my estimate of its intrinsic value, which is down from a 27% discount at the end of the third quarter. This assumes no change to the U.S. corporate tax rate. However, given the portfolio's large exposure to U.S. businesses paying at or close to a full effective tax rate, corporate tax reform that lowers the U.S. tax rate to ~25% would have a positive impact on portfolio companies' earnings.

Based on consensus estimates for 2017, at the end of the fourth quarter, the portfolio had a forward-weighted average P/E[5] of 13.9x and a forecasted EPS growth rate of 11.5% over the next two years. The consensus estimates do not appear to include any benefit from potential corporate tax reform.

The Fund's investment objective is long-term growth of capital, with current income as a secondary consideration. The Fund seeks to deliver returns in excess of the S&P 500 Index over full market cycles. By design, the portfolio is unique in its construct in order to achieve this. As of Dec. 31, approximately 19% of the disclosed portfolio was invested in six companies that are not in the S&P 500. About 73% of the disclosed portfolio was invested in 19 companies that comprise approximately 10% of the S&P 500. Approximately 59% of the Fund's exposure resides within four industries.

Given the Fund's composition, investors should expect that over any given quarter, year, or years, the Fund could have highly divergent results compared to the market. However, I believe the philosophy of focusing investments in high-quality companies within secularly healthy, growing industries at cheap valuations best positions the Fund to deliver on its stated objective and goal.

[5] 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.

Conclusion

I remain enthusiastic about the Fund's investments and their prospective returns over the long term. Compared to the broader market, I believe our portfolio is of higher quality, has greater 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 sizable 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

January 2017

Important Disclosures

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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 securities are for informational purposes only and should not be construed as recommendations by the Fund, the portfolio manager, or the Distributor. It should not be assumed that future investments will be profitable or will equal the performance of the security examples discussed. The portfolio holdings as of the most recent quarter-end may be obtained at www.fpafunds.com.

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; these risks may be heightened when investing in emerging markets. Small and mid-cap stocks involve greater risks and may 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.

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 manager considers the true business value or because the portfolio manager 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.

Portfolio Holding Submission Disclosure

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Index / Category Definitions

The 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.

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 consists of the 2,500 smallest companies in the Russell 3000 total capitalization universe and is considered a measure of small to mid-capitalization stock performance.

Indices are unmanaged, do not reflect any commissions or fees which would be incurred by an investor purchasing the underlying securities. Investors cannot invest directly in an index.

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.

FPA
investors first

FPA U.S. Value Fund, Inc.

Portfolio Holdings

12/31/16

TICKER	SHARES	SECURITY	MKT PRICE ($)		MKT VALUE ($)	% OF NET ASSET VALUE
AGN	16,500	ALLERGAN PLC*	210.01		3,465,165.00	3.07%
GOOG	7,973	ALPHABET INC CL C	771.82		6,153,720.86	5.45%
AMCX	35,200	AMC NETWORKS INC A	52.34		1,842,368.00	1.63%
ABC	99,510	AMERISOURCEBERGEN CORP	78.19		7,780,686.90	6.89%
ANTM	37,700	ANTHEM INC	143.77		5,420,129.00	4.80%
AAPL	15,600	APPLE INC	115.82		1,806,792.00	1.60%
CAH	98,560	CARDINAL HEALTH INC	71.97		7,093,363.20	6.28%
CBS	97,440	CBS CORP CLASS B NON VOTING	63.62		6,199,132.80	5.49%
C	23,150	CITIGROUP INC	59.43		1,375,804.50	1.22%
CVS	79,260	CVS HEALTH CORP	78.91		6,254,406.60	5.54%
DAL	52,500	DELTA AIR LINES INC	49.19		2,582,475.00	2.29%
DISCK	44,500	DISCOVERY COMMUNICATIONS C	26.78		1,191,710.00	1.05%
DG	40,000	DOLLAR GENERAL CORP	74.07		2,962,800.00	2.62%
HCA	16,500	HCA HOLDINGS INC	74.02		1,221,330.00	1.08%
HMHC	205,000	HOUGHTON MIFFLIN HARCOURT CO	10.85		2,224,250.00	1.97%
IWG LN	824,000	IWG PLC*	3.03		2,498,123.67	2.21%
MSG	32,950	MADISON SQUARE GARDEN CO A	171.51		5,651,254.50	5.00%
MCK	48,300	MCKESSON CORP	140.45		6,783,735.00	6.01%
RAD	169,000	RITE AID CORP	8.24		1,392,560.00	1.23%
LUV	41,850	SOUTHWEST AIRLINES CO	49.84		2,085,804.00	1.85%
TPX	117,300	TEMPUR SEALY INTERNATIONAL I	68.28		8,009,244.00	7.09%
TWX	67,380	TIME WARNER INC	96.53		6,504,191.40	5.76%
FOXA	229,500	TWENTY FIRST CENTURY FOX A	28.04		6,435,180.00	5.70%
DIS	22,763	WALT DISNEY CO/THE	104.22		2,372,359.86	2.10%
WHR	27,625	WHIRLPOOL CORP	181.77		5,021,396.25	4.45%
		TOTAL EQUITIES:			**104,327,982.54**	**92.38%**
	(1,690)	RITE AID CORP	1.50	$	(136,352.91)	-0.12%
		TOTAL CALL OPTIONS:		**$**	**(136,352.91)**	**-0.12%**
		CASH & EQUIVALENTS (NET OF LIABILITIES):			**8,740,513.07**	**7.74%**
		TOTAL NET ASSETS:		**$**	**112,932,142.70**	**100.00%**
		NO. OF EQUITY POSITIONS:			**25**	

* Indicates Foreign Security

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