FPA U.S. Value Fund, Inc.
Third 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 September 30, 2016

Fund/Index Returns	QTR	YTD	1 Year	5 Years	10 Years
FPA U.S. Value Fund, Inc.	0.00 %	-5.88 %	-0.10 %	13.10 %	6.68 %
S&P 500	3.85 %	7.84 %	15.43 %	16.37 %	7.24 %
Russell 2500	6.56 %	10.80 %	14.44 %	16.30 %	7.95 %

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.

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 the time period from September 1, 2015-September 30, 2015.

Please see important disclosures at the end of the commentary.

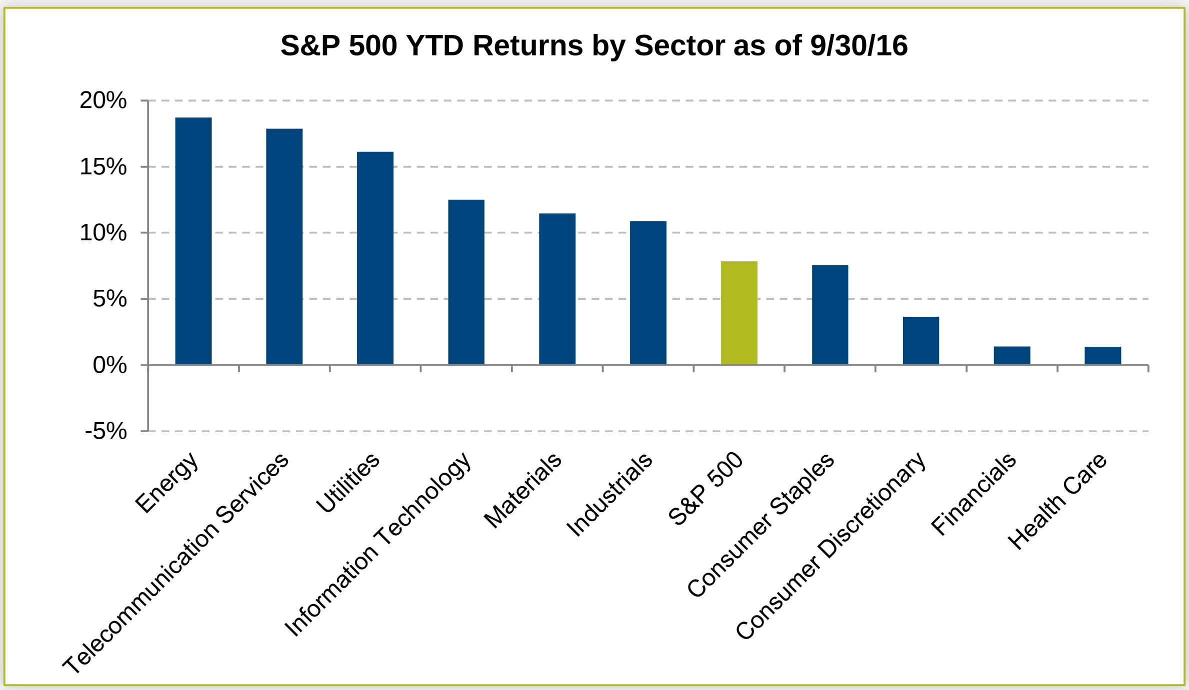
Dear Fellow Shareholders,

In the third quarter, FPA U.S. Value Fund's (the "Fund") performance was flat. It underperformed the total return of the S&P 500 and the Morningstar Large Blend Fund Average by 3.85% and 3.80%, respectively.[1]

Most of the Fund's underperformance in the third quarter and first nine months of 2016 was driven by sector exposures. During this time, the Fund had no exposure to energy, telecommunications services and utilities—three of the top-performing sectors. At the same time, the Fund was overweight healthcare and consumer discretionary—two of the worst-performing sectors in the market.

It is worth reemphasizing 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 within the pharmaceutical supply chain, which has been under pressure because of political scrutiny stemming from the ever-increasing prices of brand drugs. While large-scale distributors and retail/mail pharmacies indirectly benefit from higher brand drug prices, a relatively small portion of their profits come from this segment. In fact, the overwhelming majority of their profits are tied to generics, which I believe will see volumes increase at a healthy pace for many years to come. As this comes more into focus, I think the market should ultimately reward these companies with a valuation that more appropriately reflects their business model risk and future growth—as opposed to the large, widening discount they currently trade at compared to the market.



Source: S&P Dow Jones Indices LLC. Past performance is no guarantee of future results.

[1] Source: Morningstar.

Key Performers

Winners[2]	Performance Contribution	Losers[2]	Performance Contribution
Invesco	0.92%	McKesson	-0.76%
Time Warner	0.47%	Twenty First Century Fox	-0.52%
Ameriprise Financial	0.39%	CVS Health	-0.40%
Alphabet	0.38%	Houghton Mifflin Harcourt	-0.32%
Bayerische Motoren Werke	0.34%	Norwegian Cruise Line	-0.19%

The Fund's top five winners for the third quarter contributed approximately 2.51% while its top five losers cost the Fund approximately 2.18%.

Two of the Fund's biggest winners during the quarter were Invesco and Ameriprise Financial. As the markets rebounded post-Brexit (the United Kingdom's referendum to withdraw from the European Union), so did these asset managers.

Up until the last week of September, one of the Fund's biggest winners during the quarter had been Tempur Sealy International (NYSE: TPX), one of the two largest manufacturers and distributors of bedding products in North America. The stock price moved down at the end of the third quarter, but the Fund still managed to have a small positive return on the investment through the first three quarters of 2016.

For the past several years, Tempur Sealy operations suffered from mismanagement. However, things began to change last year after the company's top two executives were replaced by Scott Thompson, who was named Chairman, President and CEO on September 8, 2015. After doing our due diligence, I was confident TPX hired the right person to help the company realize its full potential.

TPX is a company I have followed for the better part of the last decade. When I put together the U.S. Value portfolio in September 2015, TPX's valuation wasn't cheap enough, which is why it did not make it into the portfolio initially. However, the stock sold off in Q1 2016, which is when the Fund made its initial investment. Buying alongside us at similar prices during the first half of 2016 were Tempur Sealy's CEO (~$3 million), CFO (~$1 million), president of North America (~$1 million) and a couple of other executives (about $400,000 - $500,000 each). These purchases by management provided me incremental conviction that TPX was on the right path.

While I knew it would take some time for management's new initiatives to bear fruit, there is a sense of urgency to turn things around quickly. This is because the compensation committee implemented a very lucrative incentive structure tied to the company achieving $650 million in EBITDA[3]—up from approximately $450 million in 2015. If this target is achieved in 2017, the majority of $100 million in performance-based stock units (PSUs) would be awarded to management; if missed in 2017, but achieved in 2018, approximately $33 million in PSUs would be granted. If the target is not achieved by 2018, this additional bonus potential expires.

In my opinion, the aforementioned profitability target would be difficult to achieve within a couple of years of management taking the reins. However, based on my detailed analysis of the industry and the company's

[2] Reflects the top contributors and top detractors to the Fund's performance based on contribution to return for the quarter. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented.
[3] EBITDA stands for earnings before interest, taxes, depreciation and amortization. EBITDA is one indicator of a company's financial performance and is used as a proxy for the earning potential of a business, although doing so has its drawbacks.

competitive position, I was confident this level of profitability is attainable by the end of the decade. For 2016, management has most recently guided to $500 - $525 million in EBITDA.

Should the company achieve $650 million in EBITDA, it would likely equate to approximately $5.50 to $6.00 in EPS[4]. Therefore, the Fund purchased its investment at approximately 10x this potential earnings power and 15x 2016E EPS. I viewed this to be quite inexpensive for one of the leading players in bedding with strong brands capable of taking increasing market share over time within a secularly growing industry.

TPX reported better-than-expected earnings for Q2 2016 at the end of July and increased the mid-point of its EBITDA guidance for the year to $525 - $550 million. This sent the stock up approximately 40% into the $74-$82 range from the end of July, into August and throughout most of September. While I continued to like the company's prospects and believed there was more upside, valuation was no longer as compelling as it was at the Fund's initial purchase price earlier this year. As a result, the Fund sold some shares and wrote covered calls against approximately two-thirds of the remaining position, collecting a premium on these covered calls. These moves were what helped the Fund maintain a profitable investment in TPX at the end of Q3.

After raising the mid-point of its EBITDA guidance for 2016 with July largely complete, business weakened in August and September, which caused the company to back track and lower its 2016 EBITDA guidance on September 27, 2016. There were three key reasons for this, two of which were out of the company's control. First, its largest retail customer, Mattress Firm, bought the second largest retailer, Sleepys, triggering a disruptive rebranding and remerchandising of those stores. Business at Sleepys fell during August and September, which in turn impacted TPX's business. Second, TPX management thought one of its well-performing brands, Stearns & Foster, would make it into Mattress Firm's stores in Q3 2016, but that has now been pushed out into Q4 2016. Third, having seen business strengthen from Q2 into July, management decided to offer fewer promotions throughout August and September while its main competitor kept up its discounts. This led to TPX losing some share in the last two months of Q3. As a result, TPX has now reversed course and will continue with its previous promotional strategy for the remainder of 2016 and likely into 2017.

The Fund's initial results in TPX—not the degree of success, but the timing of it—is generally more the exception than the rule when it comes to my style of value investing. We tend to buy into high quality industries and/or companies when they are out-of-favor. Often times we are purchasing shares into price weakness and an increasingly cheaper valuation. My experience is that it generally takes at least a few years for the investment thesis to fully play out. As TPX shares sold off at the end of Q3, the Fund increased its investment back to a similar position size as of the end of Q2.

One of the Fund's worst-performing investments during the quarter and over the past 12 months has been Houghton Mifflin Harcourt (NASDAQ: HMHC), or as I think of it in some respects as the fictional company, Dunder Mifflin from the hit TV sitcom "The Office" (since there are name and management similarities). Luckily, HMHC is not selling office supplies.

Regarding my investment philosophy, the most important things are to invest behind a competitively advantaged company within a secularly growing industry at a cheap valuation. Ideally, I like to have good management in place, but the first three things are key because poor managers can usually be replaced. On the flip side, putting a talented manager behind a sub-par business can only do so much. Often, when a high-quality business is selling cheaply, it is because of mismanagement.

HMHC is the leading player with approximately 40% market share in the secularly growing industry of providing

[4] 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.

educational content to K-12 schools throughout North America. In fact, I believe the industry is coming out of a cyclical trough and should be entering a very strong period of growth and cash flow generation over the next few years. An overwhelming majority of school content purchases are tied to states' collection of tax receipts, mostly from property taxes, which help fund public education spending. With the average home price making new highs, K-12 schools are in the best shape they have been in in a decade.

Over the past couple of years, HMHC has suffered from mismanagement of its core education business. It appears former management took its eye off its main business in an effort to grow adjacent, nascent direct-to-consumer businesses with seemingly big potential still years away. After the company continued to miss and lower its financial guidance throughout the year, the CEO resigned some months after its CFO left earlier this year.

So here's what we know today: First, one of its main competitors, McGraw-Hill Education, is executing well after being taken private a few years ago by Apollo Investment Corp at a valuation that would imply a low-mid $20s share price for HMHC (50% - 100% higher than the current price). Second, the industry is very healthy, with only three major players, each of which continues, in my view, to behave rationally.

Third, the typical sales cycle for K-12 schools throughout North America lasts seven years, in-line with the average contract length for schools. During the most recent trough, from 2009 - 2015, HMHC generated approximately $1.1 billion in adjusted pre-tax free cash flow before interest expense, which equates to approximately $150 million in an average year. Last year, HMHC purchased Ed Tech, the largest provider of intervention education content. After cost synergies, Ed Tech should produce approximately $60 million in annual pre-tax free cash flow (excluding interest expense) before any future sales synergies.

Finally, as the distribution of content increasingly moves to digital, I believe the cost of distribution should decline and provide a nice margin lift to the business over the next few years, equating to approximately $40 million in annual pre-tax savings. Add it all up, and this is a business that should generate at least $250 million in average annual pre-tax free cash flow (excluding interest expense).

At quarter-end, HMHC had an approximate market capitalization of $1.7 billion and enterprise value of $2.2 billion. However, in its prior corporate life, HMHC was a highly leveraged company that generated losses. As a result, it has a tax shield that should keep it from paying taxes at least through the end of this decade. Based on my analysis, over the next seven years, absent a recession, I believe HMHC can generate cumulative free cash flow at least equal to its entire current market capitalization. Exiting this decade, I estimate average annual after-tax free cash flow per share should be approximately $2.00 compared to a stock price in the $13-$14 range. While HMHC's valuation is very cheap, I want to see who the new CEO is before deciding whether or not to increase our investment in the company. If the next management team cannot execute, ultimately I believe the company will be put up for sale, with private equity being the most likely buyer at a material premium to the current price.

Portfolio Activity

Performance disparities within certain sectors provided opportunities to continue to reallocate capital to better values in the market to maximize long-term, risk-adjusted returns. Several of the Fund's higher-conviction investments had their valuations decline during the quarter, so the Fund reduced or sold certain positions in order to increase exposure to these higher conviction investments. The Fund had one newly disclosed investment in Norwegian Cruise Line (NASDAQ: NCLH). Exposure to airlines were trimmed in order to fund this new investment. By doing so, this kept exposure to the travel and leisure industry roughly the same as of the end of Q2 2016. Given that there are shared risks to airlines and cruise lines such as the price of oil, terrorism and the overall economy, I did not want to take industry risk exposure above 10% at this time.

Portfolio Profile

At the end of the quarter, the Fund had 21 disclosed positions, compared to 23 at the end of the second 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 $56 billion at quarter-end compared to approximately $48 billion at the end of the second quarter. The top 10 positions accounted for about 57.5% of the portfolio as of September 30, 2016. As of that date, approximately 69% of disclosed investments were in large-cap companies, 15% in mid-cap and 4% in mega-cap. Cash and equivalents accounted for the remaining 10%. Of the invested portion of the Fund, approximately 88% was invested in U.S. companies.

The investment portfolio ended the third quarter priced at an approximate 27% discount to my estimate of its intrinsic value, unchanged since the end of the second quarter. Based on consensus estimates for 2016, at the end of the third quarter, the portfolio had a forward weighted average P/E[5] of 12.6x and a forecasted EPS growth rate of 11.9% over the next two years.

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 September 30, approximately 15% of the disclosed portfolio was invested in five companies that are not in the S&P 500, while 10% of net assets were held in cash and equivalents. The remaining 73% of the disclosed portfolio was invested in 16 companies that comprise approximately 5.5% of the S&P 500. Nearly two-thirds of the Fund's exposure resides within five industries.

Therefore, 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 approach of concentration in high-quality companies within secularly healthy, growing industries at cheap valuations best positions the Fund to deliver on its stated objective and goal.

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

October 2016

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[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.

FPA U.S. Value Fund, Inc.

Portfolio Holdings

09/30/16

TICKER	SHARES	SECURITY	MKT PRICE ($)		MKT VALUE ($)	% OF NET ASSET VALUE
GOOG	6,100	ALPHABET INC CL C	777.29		4,741,469.00	3.89%
AMP	37,900	AMERIPRISE FINANCIAL INC	99.77		3,781,283.00	3.11%
ABC	99,510	AMERISOURCEBERGEN CORP	80.78		8,038,417.80	6.60%
ANTM	32,450	ANTHEM INC	125.31		4,066,309.50	3.34%
CAH	98,560	CARDINAL HEALTH INC	77.70		7,658,112.00	6.29%
CBS	146,600	CBS CORP CLASS B NON VOTING	54.74		8,024,884.00	6.59%
CVS	73,990	CVS HEALTH CORP	88.99		6,584,370.10	5.41%
DAL	71,450	DELTA AIR LINES INC	39.36		2,812,272.00	2.31%
HMHC	181,730	HOUGHTON MIFFLIN HARCOURT CO	13.41		2,436,999.30	2.00%
IR	32,050	INGERSOLL RAND PLC	67.94		2,177,477.00	1.79%
IVZ	180,150	INVESCO LTD	31.27		5,633,290.50	4.63%
MSG	32,950	MADISON SQUARE GARDEN CO A	169.41		5,582,059.50	4.58%
MCK	48,300	MCKESSON CORP	166.75		8,054,025.00	6.61%
NCLH	87,450	NORWEGIAN CRUISE LINE HLDGS LT SHS	37.70		3,296,865.00	2.71%
		OTHER			2,177,137.00	1.79%
LUV	72,900	SOUTHWEST AIRLINES CO	38.89		2,835,081.00	2.33%
SAVE	66,850	SPIRIT AIRLINES INC	42.53		2,843,130.50	2.33%
TPX	67,070	TEMPUR SEALY INTERNATIONAL I	56.74		3,805,551.80	3.13%
TWX	92,438	TIME WARNER INC	79.61		7,358,989.18	6.04%
FOXA	255,000	TWENTY FIRST CENTURY FOX A	24.22		6,176,100.00	5.07%
WBA	86,550	WALGREENS BOOTS ALLIANCE INC	80.62		6,977,661.00	5.73%
WHR	26,200	WHIRLPOOL CORP	162.16		4,248,592.00	3.49%
		TOTAL EQUITIES:			**109,310,076.18**	**89.77%**
	(320)	INGERSOLL-RAND PLC	3.50	$	(67,579.02)	-0.06%
	(234)	TEMPUR SEALY INTERNATIONAL INC	2.85	$	(5,116.90)	0.00%
		TOTAL CALL OPTIONS:		**$**	**(72,695.92)**	**-0.06%**
		CASH & EQUIVALENTS (NET OF LIABILITIES):			**12,528,172.28**	**10.29%**
		TOTAL NET ASSETS:		**$**	**121,765,552.54**	**100.00%**
		NO. OF EQUITY POSITIONS:			**23**	

* Indicates Foreign Security

Portfolio Holding Submission Disclosure

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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; this may be enhanced when investing in emerging markets. 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.

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 Managers or Distributor.

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.

Important Disclosures

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.

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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 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 / 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.

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