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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Buying Strong Businesses at a Discounted Price

SCOTT COBB is a Senior Analyst and Principal for Southeastern Asset Management, Inc., an employee-owned, global investment management firm, which focuses on value equity investing and is the investment adviser for the Longleaf Partners Funds. Mr. Cobb heads Southeastern's European research in London and also serves as Co-Portfolio Manager for the Longleaf Partners International Fund. He has 19 years of investment experience, joining Southeastern in 2006 after holding positions at Smith, Salley & Associates in Greensboro, North Carolina, operating as a private investor in Chapel Hill and at CST Investments LLC in Memphis. Mr. Cobb has a bachelor's degree in history from the University of Memphis and a master's in theological studies from Covenant Theological Seminary.

SECTOR — GENERAL INVESTING

(TWST: I'd like to begin with an overview of Longleaf Partners International Fund and the philosophy of the firm.

Mr. Cobb: To put the fund into the context of our overall company, Southeastern Asset Management is a long-only global concentrated equity investment firm managing more than $30 billion. We are 100% employee-owned, and we have operated under the same investment philosophy since our founding in 1975. Longleaf Partners International is one of our four mutual funds, and it focuses on investments outside the U.S. Our other mutual funds are the Longleaf Partners Fund, which is a U.S. large-cap fund, a U.S. small-cap fund and then a global fund.

Those funds, along with the Longleaf UCITS Funds, comprise about half of our assets under management, and employees are the largest investor group, as we are required to invest our equity assets into the Longleaf Funds on the same terms as our clients. The other half of Southeastern's assets are in separately managed accounts operated with the same philosophy, process and approach as our funds. The International Fund looks to achieve long-term capital growth with a focus on absolute returns. We don't benchmark ourselves against an index, and we run a concentrated portfolio of between 18 and 22 companies with an average holding period of five years.

TWST: How many holdings do you currently have?

Mr. Cobb: Roughly 20 in the International Fund.

TWST: Can you give us an example of how this philosophy is exemplified in some of your current holdings?

Mr. Cobb: We explain our investment philosophy as strong business, good people and discounted price. We're looking for businesses with sustainable competitive advantages run by management teams and boards who are intensely focused on growing the intrinsic value per share. And we want to buy those businesses when they are trading at a 40% or better discount to our internally calculated appraisal of the business.

A representative holding for us today would be something like **Philips** (PHG). It traditionally has been seen as a European consumer electronics company. We think the market misses that more than 75% of earnings come from its leading position in the medical equipment market and from high-growth consumer products, such as Sonicare toothbrushes and electric razors.

Only around 25% of the business is in Europe, so the company is far from being a European consumer electronics company. Since new management arrived in early 2011, the company has exited their television business and their audio/video business. We would agree that Europe is probably going to have slow growth, but again, Europe is only about 25% of the overall business. So it's mainly a U.S. business with a big presence in fast-growing emerging markets like China and Latin America.

What attracted us is its competitive positioning in both health care and lighting. And obviously, in the consumer-goods space, they are dominant in electric toothbrushes, and their electric-razor business is very good as well. Management has been methodically addressing inefficiencies in order to get margins in line with the best-in-class operators. They achieved the bulk of the margin uplift by 2013 and there is more to go on the margin side through 2016.

Their efforts have culminated in their recent announcement to split off the lighting business, and combine the consumer and health care business into one company to be called **HealthTech**. What's interesting about the decision to split the company is that **Philips** has historically been seen as a European conglomerate and has had a conglomerate discount placed on it by the market, so we're very encouraged to see that management is addressing this discount by splitting the business.

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What that means for us in terms of multiples is, if you just look at comparable companies trading today — for example, **OSRAM** (OSR.DE) — in lighting and use that multiple for **Philips Lighting**, even though we think **Philips Lighting** is a much better business, you're left paying something like eight or nine times EBITA for a health care business where the competitive set trades for somewhere around 12 to 13 times. And while this discount persists, management is being smart by taking 1.5 billion euros and repurchasing their shares. So we think that's going to be accretive over the long term in terms of growing intrinsic value per share.

Another one I would point out is **OCI** (OCI:NA). This company used to be **Orascom Construction Industries**, which was the largest publicly traded company in Egypt. About 18 months ago, the company decided to redomicile to the Netherlands. The Sawiris family founded **Orascom Construction** and remains the largest shareholder in **OCI**. And as you probably know, construction is a business that generates tremendous amounts of cash.

Nassef Sawiris is the CEO, and he is an incredible value creator. He took the cash generated by the construction business and, in the early 2000s, built up one of the leading emerging market cement companies, which was eventually bought by **Lafarge** (LG.PA) in 2007, where Sawiris is now the second-largest shareholder, and we own it in our portfolios. After he completed that deal, he held on to the construction business and again used the cash flow to build up the nitrogen-fertilizer business so that, now, **OCI** is really 90% nitrogen fertilizer and 10% construction. The nitrogen-fertilizer business is a U.S. dollar business, and they have significant assets in the United States as they've taken advantage of the shale gas boom and the low cost of gas, as natural gas is one of the major inputs to producing nitrogen.

What's interesting is we think the market is missing what is really driving the company's economics. It's not construction in the Middle East; it's really nitrogen fertilizer primarily in the U.S. And **OCI** is one of the lowest-cost producers in this commodity industry. Like **Philips**, management has recognized that the market is putting a discount on the company because they are in these two different business lines: construction and fertilizer.

So management recently announced they are going to spin off construction to shareholders, and list that as a pure play in Dubai and in Egypt. We think that's a very smart move, because not only should it take away the conglomerate discount, it should also allow current owners of **OCI** to benefit from holding shares in a pure-play ME construction company where peers are trading around 10 to 12 times EBITDA versus around seven to eight times for **OCI** today. We think it should create an immediate value uplift for current shareholders and also will reflect the underlying economics of a pure-play fertilizer business, which we think has a long tailwind given all the challenges around food production going forward as more people eat meat and adopt the American diet.

TWST: I noticed that in both these two examples, Philips and OCI, they were spinoffs. Is that something you frequently look for?

Mr. Cobb: I wouldn't say it's something that we always look for. Overall, we're looking for businesses with some sort of sustainable competitive advantage and run by shareholder-friendly management. We want to buy into those businesses at a substantial discount, and it's often rare that you'll find a great business with great management selling at a discount to value. Often, that discount arises because of these misperceptions in the market.

With **Philips**, it was the misperception of it being a European consumer electronics company, or the market not appreciating that lighting and health care have different economic characteristics, and therefore, should be valued at different multiples. With **OCI,** the market is still remembering the legacy construction business and maybe not yet making the shift completely to the fact that this company is more about nitrogen fertilizer, and arguably missing the capital-allocation prowess of Mr. Sawiris.

Highlights

Scott Cobb discusses Southeastern Asset Management's Longleaf Partners International Fund. The fund is a concentrated portfolio that aims for long-term capital growth and is not benchmarked against an index. In addition, the primary investment philosophy is to look for strong businesses that have shareholder-friendly management and are selling at a substantial discount. Mr. Cobb believes the portfolio's competitive advantages lie in its concentration, time horizon, depth of research and the fact that Southeastern's employees also invest in the fund, which helps to further align their interests with that of their clients.

Companies discussed: Koninklijke Philips N.V. (PHG); OSRAM Licht AG (OSR.DE); OCI NV (OCI:NA); Lafarge S.A. (LG.PA); Melco International Development Ltd. (0200.HK); Melco Crown Entertainment Limited (MPEL); Christian Dior SA (CDI.PA); LVMH Moet Hennessy Louis Vuitton SA (MC.PA); Ferrovial (FER.MC); Adidas AG (ADS.DE) and Orkla (ORK.OL).

What we're trying to do is look for misperceptions that exist in the market that mask a valuable franchise, enabling us to buy in at a discounted price. Sometimes it could be a spinoff; sometimes it could be an accounting discrepancy, such as with a holding we have in **Melco International Development** (0200.HK), which through its ownership in **Melco Crown Entertainment** (MPEL) is one of the six licensed gaming operators in Macau.

What's interesting is the market will often look at **Melco** and say, "Well, it's trading at the same EBITDA multiple as gaming companies in Las Vegas." What that misses, we think, is that the Chinese government takes taxes off the top line. So the tax, by the time you get to EBITDA, is already taken out. That's a net number, and therefore, you need to adjust your multiples to reflect that. We're looking for any sort of opportunity or reason why a company might be mispriced in the market that allows us to pick it up at a discount.

Another example would be something like **Christian Dior** (CDI.PA), which is the holding company of the Arnault family, which controls **LVMH Moet Hennessy** (MC.PA). And obviously, luxury goods have benefited enormously from the growth in consumers — particularly from China — in recent years. Those consumption patterns have slowed down recently, but we feel like the market has overreacted, and therefore, we're able to buy one of the world's greatest collections of brands at a significant discount because of the temporary slowdown in consumption by the Chinese consumer and by purchasing our interest in **LVMH** through **Christian Dior**, which sells at an additional discount to the underlying **LVMH**.

The other point I would make is that, in Europe, we're seeing an economic slowdown that's likely to persist for the foreseeable future. Often, we'll see institutions and investors say, "We just don't want any exposure to Europe given that economic outlook," and we would say, "Well, if you go in and you're selective about which companies you want to buy, you can often find companies domiciled in Europe that have very little exposure to the economies in Europe."

"We are bottom-up appraisers. We aren't macro forecasters and don't try to get into that kind of discussion. We're doing bottom-up analysis of each individual business, and that bottom-up appraisal process drives our geographical allocation."

An example there would be **Ferrovial** (FER.MC). It's often seen as a Spanish construction company, but over 90% of its business is concession assets in the United States, Canada and the U.K., as well as a leading services business in the U.K. They own two of the best concession assets in the world in Heathrow Airport and the 407 Toll Road in Toronto. Clearly, the economics of those assets aren't being driven long term by anything in Europe, but the company is selling at a discount because it's based in Europe, and there is this misperception that persists.

TWST: What's your view on the global economy now, and how do you make determinations about which part of the globe to invest in?

Mr. Cobb: We are bottom-up appraisers. We aren't macro forecasters and don't try to get into that kind of discussion. We're doing bottom-up analysis of each individual business, and that bottom-up appraisal process drives our geographical allocation. Right now, we're heavily weighted to Asia and Europe, completely due to the fact that this is where we're finding the most discrepancies between price and value, and therefore, the most opportunities. We aren't doing an assessment of the global economy, but our bottom-up appraisal process is driving what we think are material undervaluation opportunities in Asia and in Europe today relative to the U.S. It's reminiscent to us of the late-1990s, which was a great time for international value investing in terms of the opportunities that were available.

TWST: Do you find there are certain sectors that seem to offer more attractive opportunities, or does that not enter into it given your bottom-up approach?

Mr. Cobb: It does. Often, we see certain companies and certain industries get cheap at the same time. I would say it's more macro concerns that are driving undervaluation today and the opportunities we're seeing. For example, there has been a lot of talk and worry around China slowing down, and obviously, the crackdown on corruption in China has impacted certain companies. The China slowdown has hit things like oil and iron ore commodity companies.

You've seen the crackdown on corruption impact things like the gaming companies in Macau, including **Melco**, where VIP gamblers are falling off and no longer spending big money. But what that fact masks is that a company like **Melco** — which has 80% of its earnings driven by the mass and premium-mass segment of consumers — is cheap because it's getting swept up in this whole VIP drop-off, but the mass segment is still growing midteens, and that's a higher margin segment for this business. We feel like the market is not seeing the forest through the trees in this particular case.

1-Year Daily Chart of Ferrovial

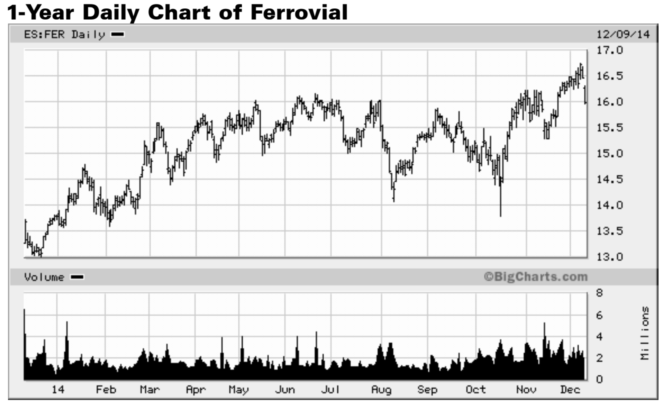

Chart provided by www.BigCharts.com

TWST: Where do you begin to find your best investment ideas?

Mr. Cobb: We have a group of 10 analysts, and each of us is a generalist, and we're unconstrained geographically. We're encouraged to go out and find the best business, people, price that we can find anywhere in the world, in any industry. Our average holding period is about five years, so we are longer-term investors, and since we are all major investors in our funds, when we look at an investment, it's important that we get it right as we're investing our own money as well.

Given our investment philosophy, we look for businesses with a sustainable competitive advantage, so very quickly we discount companies that are in industries that are subject to fast-changing technology. We also tend to avoid industries or companies like the large banks where we don't have enough visibility or can't say with conviction what the business is going to look like five-plus years into the future. We tend to focus on businesses where we can see sustainable pricing power, sustainable brands.

For example, if it's a commodity industry, then it may be the lowest-cost producer, which is likely to persist for the foreseeable future. And then, each analyst has his or her own circle of competence, where we gravitate to certain industries and complement each other well. Whereas I might follow a number of hotel companies and other colleagues might follow cement companies, our ideas can come from many different avenues.

markets, but it isn't 100% exposure to those markets and their governance norms. We also avoid management and boards where we aren't confident that they are working to increase shareholder value, which isn't always a given when investing in some regions.

Other than that, we are conservative going in on our estimates of intrinsic value. For example, we build slowing economy scenarios into many of our appraisals. Or with a holding like **Melco International**, one of the risks there might be the government, as these companies will have to pay to renew their license to operate. These licenses last for eight to 10 years, and when the new round of grants come up, it's uncertain what price the government will set. But we've already built a pretty punitive cost into our appraisal so that we think we've captured the risk.

We try to err on the side of conservatism for those risks where we don't have enough knowledge to know specifically which way it will go. But again, since we define risk as the loss of permanent capital, the way we mainly mitigate that is just really focusing in on our appraisal of the businesses and being conservative in our underlying assumptions, and then trying to have a large margin of safety between what we pay and that appraisal.

"Our ideas can come from anywhere, but the characteristics that we're looking for don't change, and those are a sustainable competitive advantage on the business and then management that has a track record of building intrinsic value per share over a long period of time."

It could be something we read in the newspaper; it could be a company showing up on the 52-week low list. It could be a change in management; it could be a change at the board level. We often look at insider purchases as a means for identifying companies that could potentially be cheap. Our ideas can come from anywhere, but the characteristics that we're looking for don't change, and those are a sustainable competitive advantage on the business and then management that has a track record of building intrinsic value per share over a long period of time.

TWST: What are the biggest risks that you're seeing right now in the market that could have an influence on investment decisions next year?

Mr. Cobb: We're a little bit different in that we define risk as the loss of permanent capital rather than short-term stock-price volatility. We feel like we can mitigate that risk in particular by being good appraisers of businesses from a bottom-up standpoint. We mitigate the risk of permanent loss by making sure we have a significant margin of safety between the price we pay and a conservative estimate of the business's intrinsic value. Also, while we're concentrated, with 18 to 22 names, we get a lot of diversification benefit from that number.

Another way we try to manage risk is through where we actually invest. Because we run a concentrated portfolio, we tend to avoid certain countries where we're not as comfortable with corporate governance or the rule of law. So in some of the emerging economies, we wouldn't own direct exposure in those particular countries, but we would want to own companies that have derivative exposure to mainland China or India or what have you. So you'd see us own something, like a **Philips** or an **Adidas** (ADS.DE), where they have big businesses in those

TWST: Were there any particular disappointments in the fund's holdings over the past year?

Mr. Cobb: Yes. I'd say there have been two main drags on our performance this year. One of those has been our holding in Macau, where **Melco** is down about 30% year to date for the reasons I touched on. The bulk of the underperformance has been driven by this crackdown on corruption, which has led to less VIP customers going into the casinos. We see this as a short-term blip in what otherwise is a long-term, very favorable tailwind behind the company, as our mass and premium-mass segments are still growing double digits.

We look at Macau very much like Las Vegas in the early days where they had the taint of organized crime and a lot of uncertainty about what the industry would look like. We think a lot of that's been overdone in Macau and that when we look out 10 years from now, it will be more like Las Vegas, that is, a place where people go mainly for entertainment. The six operators that currently operate in that region are likely to still be there in the long term.

And we've partnered at **Melco** with Lawrence Ho who owns about 40% of the company and has been a fantastic partner. The company is buying shares both at the **Melco International** level and down at **Melco Crown**. In addition, Lawrence has personally been buying shares. So **Melco** has driven our underperformance this year, but we really think it's a short-term factor.

The other one that's hurt us this year has been **OCI**, and the main issues there have been primarily Egypt. There's been a lot of unrest in the Middle East, but in Egypt, in particular, the gas supply has been difficult this year, and as you know, the main input cost for nitrogen is natural gas. Without a consistent supply of gas, it's hard to operate at full capacity, and that has impacted results this year.

The two plants we own in Egypt have not been producing as much cash as we would have expected, but the gas situation is starting to reverse itself. It looks like the government has taken some pretty significant steps to make sure that the major industries, including fertilizer, have access to gas, and so we think this is a short-term issue. We had modeled 50% utilization for these plants in our value, so we more than captured the weaker-than-expected results this year.

1-Year Daily Chart of Orkla

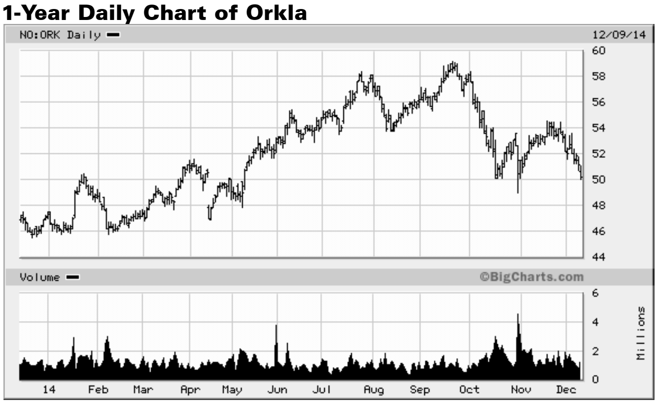

Chart provided by www.BigCharts.com

The other point about **OCI** that I think the market misses is that they're building one of the biggest greenfield nitrogen-fertilizer plants in America right now. It's in our farm belt, in Iowa. 75% of the capex has been spent, but it won't start producing cash until Q4 of 2015. The company is also building the biggest onshore methanol plant down in Texas. So if we look out 12 to 18 months, EBITDA for this company could be about 75% higher than it is today, but the market's so short term in its focus that it's not willing to pay for that today. We think that the shares will rerate rather quickly as those plants start to produce cash, and then, the attractiveness of the fertilizer business will become more evident when they split out construction.

So those are the two biggest disappointments from a price standpoint, although our appraisals have not declined, and we don't expect to realize a permanent loss of capital in either of those investments. We think the disappointment is very much short term in nature.

TWST: Any particular upside surprise this year, something that you didn't quite expect?

Mr. Cobb: I'm not sure it's a surprise, but two of our strongest performers year to date have been **Orkla** (ORK.OL) and **Ferrovial**. **Orkla** is a historic Nordic conglomerate. They own everything from power-generating assets to an aluminum solutions company to public equities, and it has been around for a very long time. They also own a significant branded consumer-goods business. There's new management in place, and a significant owner who has come in and encouraged the company to scale down to just a branded consumer-goods company.

While the company still sells at a discount to our value, we've been a little bit surprised at how quickly the market has recognized what's going on there. They dominate the Nordic market in branded goods so much that any potential competitor who wants to enter those markets probably would only be able to get that distribution by buying **Orkla**. And so as the company has sold some assets and shrunk down to this branded consumer-goods company — even though the process is not fully complete — the market has begun to recognize what's going on and has rerated the company accordingly.

The other one would be **Ferrovial**. It has had — in light of the economic concerns in Europe and somewhat of a weak year for European equities in general — a pretty decent year-to-date performance, and management has done a number of smart things in terms of selling some assets, buying back shares and restructuring debt. Also, the Chairman just announced that he purchased an additional 40 million euros' worth of shares, which is around 0.5% of the company. So we think that even though it has done well year to date, there is still a long way to go there to reach the ultimate value.

TWST: In conclusion, is there anything that we haven't had an opportunity to talk about that you'd like to add?

Mr. Cobb: We often get asked to define our competitive advantage. I think there are four things that really set our international fund, the Longleaf Partners International Fund, apart. One is our concentration, which involves concentrating only in our best ideas, where we find a good business run by good management available at a heavily discounted price. Another point is our alignment of interests; employees of Southeastern are required to put their equity investments in our funds. That manifests itself today in employees owning about 15% of the assets under management of the Longleaf Partners International Fund. So we're definitely aligned with our clients in that, when we make investments, we're investing our own savings as well.

We think the time horizon is a major competitive advantage, the fact that our average holding period is five years. In an increasingly short-term focused market, we feel like that gives us enormous competitive advantage in being able to find undervalued businesses and to have the staying power to see the value realized. And finally, there is the depth of our research. This research team has been operating together as one team for almost a decade and works really well together. We've clearly been through some volatile times, and have come through that time as a strong and cohesive team, and we're very optimistic with the opportunities we're finding today.

TWST: Thank you. (EP)

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Disclosure Information

Before investing in any Longleaf Partners fund, you should carefully consider the Fund's investment objectives, risks, charges, and expenses. For a current Prospectus and Summary Prospectus, which contain this and other important information, visit longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

Average annual returns for the Longleaf International Fund and its respective index for the one, five, ten, and since inception periods ended September 30, 2014 are as follows:

Longleaf Partners International Fund: -2.46%, 5.44%, 4.70%, 8.33% (inception October 26, 1998). MSCI EAFE: 4.25%, 6.56%, 6.32%, 4.76%.

Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting longleafpartners.com

The total expense ratio for the Longleaf Partners International Fund is 1.27%. The expense ratio is subject to a fee waiver to the extent the Fund's normal annual operating expenses exceed 1.75% of average annual net assets.

Fund holdings are subject to change and holding discussions are not recommendations to buy or sell any security. **Current and future holdings are subject to risk.** The statements and opinions expressed are those of the speaker and are as of the date of this article.

The Top 10 holdings of the Fund as of September 30, 2014 are as follows: Lafarge, 7.2%; EXOR, 7.0%; Cheung Kong, 6.7%; Melco International, 6.6%; Philips, 5.5%; K Wah International, 5.4%; News Corp, 4.9%; Adidas, 4.7%; Genting Berhad, 4.7%; Christian Dior, 4.6%.

RISKS

The Longleaf Partners International Fund is subject to stock market risk, meaning stocks in the Fund may fluctuate in response to developments at individual companies or due to general market and economic conditions. Also, because the Fund generally invests in 15 to 25 companies, share value could fluctuate more than if a greater number of securities were held. Investing in non-U.S. securities may entail risk due to non-US economic and political developments, exposure to non-US currencies, and different accounting and financial standards. These risks may be higher when investing in emerging markets.

Employees of Southeastern Asset Management are required to use the Longleaf Partners Funds for public equity investments unless an exception is granted.

MSCI EAFE Index (Europe, Australasia, Far East) is a broad based, unmanaged equity market index designed to measure the equity market performance of 22 developed markets, excluding the US & Canada. An index cannot be invested in directly.

Definitions for terms used include:

EBITDA: Earnings before interest, taxes, depreciation, and amortization.

Price to Earnings (PE Ratio): A valuation ratio of a company's current share price compared to its per-share earnings.

The 1 Year Daily Chart of Orkla (NO:ORK) shows the daily price of Orkla shares trading on the Oslo Børs in Norwegian Krone terms. Trading volume represents the number of share traded.

The 1 Year Daily Chart of Ferrovial (ES:FER) shows the daily price of Ferrovial shares trading on the Bolsa de Madrid in Euro terms. Trading volume represents the number of share traded

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