June 30, 2015

Value Investor INSIGHT

The Leading Authority on Value Investing

Business, People, Price

By the time many managers hit $30 billion in assets they've already adopted a safer, benchmark-hugging approach. Not so Southeastern Asset Management.

There are few constraints on Southeastern Asset Management's 10-person analyst team, which includes company CEO Mason Hawkins and President Staley Cates. "We want to be kind of a researcher's nirvana," says Cates, "which we think starts with analysts being able to look at any idea anywhere in the world."

Such analytical freedom has paid off in a long history of market-beating returns. The firm's Longleaf Partners International Fund, for example, has earned a net average annual 7.8% since its 1998 inception, vs. 4.9% for the MSCI EAFE [Europe, Australasia and Far East] Index.

Finding more ideas outside the U.S. than in it, Cates and team see value today in such areas as gaming, real estate, sportswear and diversified holding companies. See page 2

INVESTOR INSIGHT

Staley Cates
Southeastern Asset Management

Investment Focus: Seeks well-run companies whose stocks appear excessively discounted due to some combination of market misunderstanding and myopia.

Inside this Issue

FEATURES

INVESTMENT HIGHLIGHTS

Other companies in this issue:

Banco Bradesco, CNH Industrial, FedEx, Ferrovial, Fiat Chrysler, Genting Berhad, Google, Hisamitsu Pharmaceutical, Melco Crown Entertainment, OCI, PGE, Samsung Electronics, Softbank, Sun Pharma Advanced Research, Vopak

Investor Insight: Staley Cates

Southeastern Asset Management's Staley Cates, Scott Cobb, Manish Sharma, Josh Shores and Ken Siazon offer advice to investors looking to step up their international game, describe universal reasons why stocks can be mispriced, and explain what they think the market is missing today in Melco International, Adidas, Exor and Cheung Kong Property.

With uncharacteristic brevity for a money manager, you distill your strategy down to "business, people and price." Describe what you're looking for in each case.

Staley Cates: With respect to the business, we have to be able to articulate the company's long-term competitive advantage, from a brand name, a distribution network, a network effect, a low-cost operation. For the best businesses it's usually so obvious that you can describe the advantage in a paragraph. The harder work comes in defending it. Why does the moat last? What are competitors doing? What's happening with the technology?

On people, we're asking about two distinct skills that don't very often correlate with each other, operating expertise and capital allocation. Operating skills surface in margins. Are they increasing at a better rate than the competition? Are margins stable when everyone else is struggling?

With capital allocation it's both a past and future thing. You evaluate management's record in detail, but equally important is how they articulate what they're doing with the money going forward. For example, we think one of the misperceptions about Google [GOOG] is that these are the smartest guys in the room who are lighting money on fire doing weird new things. But if you drill down into the investments they've made, the picture is different. Management paid $1.6 billion for YouTube in 2009, but what is it worth today? We believe it's worth many tens of billions, making it a serious, check-the-box-positive capital-allocation success.

Compensation is also key, but it's more about how management is paid than how much. We don't begrudge somebody a big number if they create tons of value and it's properly aligned with our interests. Restricted stock, for example, is better than a huge share grant. It's also very important what they do with their own money. When Li Ka-Shing bought more stock in Cheung Kong Property [1113:HK] a few weeks ago, that was a huge deal. Some people yawn it off when a multi-billionaire buys $15 million in stock, but rich guys don't do things like that lightly. We care about that type of thing – both buying and selling – probably more than most.

If it's a great business and we love the people, it's the rare bird that meets our price criteria. We estimate intrinsic value primarily through discounted-cash-flow analysis, and then we want to pay no more than 60-65% of that estimate. We pay attention to comps, but only to make us more conservative. If our work says something is worth 8x EBITDA but the range of comps is only 6-7x, we'll lower our appraisal accordingly. I would add that's rarely the case today. We may still conclude something's worth 8x EBITDA, but deal comps in particular because of low financing rates and all the fantastic synergies assumed may be 12x. We'll pay no attention to that. Just because the world is bidding everything up, we're not.

ON COMPS:

We pay attention to comps, but only to make us more conservative. If the world bids everything up, we're not.

What creates the rare-bird opportunities?

Staley Cates: Often it's some sort of misperception tied to the conventional wisdom about what a company is. We've owned for a long time Genting Berhad [GENT:MK], a holding company whose primary assets are gaming properties in Malaysia and Singapore. What's totally bizarre is that one of its other businesses recently found six trillion cubic feet of natural gas in Indonesia and the market doesn't seem to care about that. The analysts who follow it can give you chapter and verse on the latest gaming metrics, but don't pay any attention to what the company found in Indonesia. There's been a radical change in the company's assets, but not in its market value.

Another good international example would be OCI [OCI:NA], whose heritage is as a fertilizer and construction business in Egypt. First you had all the economic and political problems in Egypt, then you had the agriculture cycle going against them – the result being the market ran the other way. We took a longer-term positive view of the ag cycle and also saw that the company was shifting capital in a big way from Egypt, building a large greenfield fertilizer plant in Iowa that will drive down production costs and a giant methanol plant in Texas. We were also happy to invest alongside the company's CEO, Nassef Sawiris, who has a long history of building and monetizing shareholder value.

Even in big blue-chips the market can get its emphasis out of whack. That was the case years ago when all anyone wanted to talk about at Disney [DIS] was the latest box-office numbers, but the real value creation was at ESPN. More recently, FedEx [FDX] has had cyclical issues in its international-express business, which people seem to care a lot more about than that it's making money hand over fist in U.S. ground trucking. If you don't believe the international business that historically has made 10% margins is now doomed to make 3% forever – which we don't – that can be an opportunity.

So you're not afraid of cyclicality?

Staley Cates: Cyclicality in and of itself tells us nothing. We avoid most pure commodity businesses, but we do invest opportunistically in energy because the companies there can have very different reserve and cost profiles, which we think allows us to differentiate between the good and the bad. We also find quality can be underappreciated due to the cycle. Most of the world would not consider a cement and aggregates company like Vulcan Materials [VMC] or Lafarge [LG:FP] to be "quality" because it's incredibly cyclical. But given the dynamics of the business down to local markets, they can be down 50% on units and still raise prices to the customer. If you look at a business like that based on mid-cycle earnings rather than with short-term goggles, you can get a very different answer on business quality.

You put your nearly $30 billion in assets to work based on the efforts of ten analysts who have considerable leeway to pursue the ideas they want, where they want. Why set things up that way?

Staley Cates: We tell people they are their own boss. I head the research department, but can go a long time without having a one-on-one conversation with a particular analyst. If you have the right people, giving them maximum flexibility is going to produce the best work.

Those ten people, including Mason [company co-founder Mason Hawkins] and I, have an average of more than 15 years of experience. That means if each of us has looked closely at one company a week, we have a personal inventory of several hundred names we know to some degree. When we look at our global opportunity set, once you take out companies that are too small for us – less than $750 million or so in market cap – that operate in countries without adequate corporate governance, and that don't meet our quality standards, we're left with less than 1,000 names in the U.S. and 1,000 outside the U.S. So we feel we can more than cover the universe with a fairly small team.

Our investing heroes, Warren Buffett and Sir John Templeton, always kept tiny teams. Big teams to us increase politics and decrease objectivity. It's also easier to keep talent on a smaller team.

ON NON-U.S. INVESTING:

It's legitimate to question whether a strategy that works well in the U.S. will work in other countries.

Successful U.S. managers often hesitate to "go global" out of concern that they won't be able to replicate their U.S.-based expertise in a non-U.S. setting. You got over that relatively earlier than most. How?

Staley Cates: If the question is, "Can I replicate the network and experience base I have in the U.S outside the U.S.," the answer is no. To us the more important question is, "Can I find enough names where I have the same conviction level, belief in the people and understanding of the franchise to populate an international portfolio of 20 names?" The reason we went ahead is that we absolutely believe we can answer yes to that question. If we were worried about shadowing an index, we probably would have come to a different conclusion. Now that we've been on the ground in Asia and Europe for over 15 years, we have built out strong local networks in both regions.

It's also legitimate to question whether a strategy that works well in the U.S. will work in other countries. That's very much a country-by-country answer, which we've learned the hard way. In the U.S. we have the best of both worlds: the equity market is inefficient enough to let us keep our jobs, but efficient enough that you can count on gaps that open up between price and value to eventually close. That's not as true in many countries. In Brazil the governance is so horrible you often can't stand up for your rights as shareholders when companies do something sketchy. In Japan, certain mechanisms for getting paid that we take for granted in the U.S. – a competitor swoops in to make a takeover offer or even a shareholder push for better capital allocation – aren't nearly as available.

That doesn't mean you avoid those markets, but you have to know what might block you from realizing value and either determine that it's not relevant or that you're more than being compensated for the higher risk.

Ken Siazon: To that point, we recently added SoftBank [9984:JP] to our International portfolio. Masayashi Son, the CEO, is an owner-operator and has an exceptional track record of building businesses and allocating capital around the world, so we don't believe the general caveats about investing in Japan apply. The market seems overly concerned with the company's disappointing investment so far in Sprint [S], to the point where its 32% stake in China's Alibaba is now worth more than SoftBank's current market value. That means the market is ascribing nothing to the company's large stake in Yahoo Japan, its Japanese mobile business that generates $8 billion a year in EBITDA, Sprint, and a broad portfolio of Internet-related companies. In another Japanese company we might have less confidence that this kind of price/value discrepancy will go away, but we don't think SoftBank is just another Japanese company.

Even though your analysts can pursue ideas anywhere, you have people permanently in place both in Asia and Europe. Why?

Staley Cates: There's just a level of getting to know the cultures, building a network of contacts and understanding the economic and political ins and outs that just can't be done with a U.S.-only staff. The people we have in London and Singapore have the mentality that they're going to be there for good. We talk all the time about how our experience and network provides us with a competitive advantage – that has to be true outside the U.S. as well.

Your holding only 20 or so names in your largest portfolios can lead to some big swings in relative performance. Do you ever question that level of concentration?

Staley Cates: You question it all the time, especially when you're trailing the indices as our larger-cap funds have done recently. How can you not?

Every time we revisit it though, as long as we're staying diversified by industry and country – we shoot for no more than 15% of the International portfolio in either bucket – we come back to wanting to bet enough for it to matter. If we've concluded something like CK Hutchison [1:HK], which has since spun-off its property assets, has very little downside, trades at a significant discount to net asset value and has the potential to be the Berkshire Hathaway of Asia, we don't want that to just be one of 50 names. We want to tilt into it pretty hard.

ON HIGH CONCENTRATION:

Every time we revisit it, as long as we're diversified, we come back to wanting to bet enough for it to matter.

How do you handle currency exposure?

Staley Cates: Sir John coached us from the beginning that it would all come out in the wash, and that has been our experience. Today we don't hedge unless there's a compelling one-off reason to do so. An example today is that we own puts on the Hong Kong dollar related to our investments there. If they continue to peg to the U.S. dollar we have a free lunch as investors, as our holdings will increase revenues by the nominal local inflation while interest costs and cap rates are tied to the low ones in the U.S. If they un-peg and the currency rises, we obviously will make money. But if they un-peg and the currency goes down, then these puts, which cost very little, will protect us.

Turning to a Hong Kong idea, describe what you think the market has wrong about Melco International [200:HK].

Manish Sharma: Melco International is a holding company with over 95% of its net asset value consisting of a 34% ownership stake in Melco Crown Entertainment [MPEL], which is listed in the U.S. Melco Crown is one of the six concessionaires allowed to operate gaming properties in Macau, where its primary assets are the City of Dreams and Altira Macau resort-casino properties. Between them they have more than 600 tables, 1,600 hotel rooms and a 13-14% market share.

As has been well documented, the gaming business in Macau is under pressure from an unprecedented anti-corruption crackdown imposed by Beijing. The resulting environment of anti-extravagance has caused high-end customers to avoid Macau to the extent that the VIP business there is down 50% in the first five months of this year. That's obviously had a big negative impact on all Macau-related stocks.

Our case for Melco Crown rests on a few key things. First of all, while the VIP business is suffering, we believe the mass market continues to grow and that's where Melco is primarily exposed, generating close to 85% of its EBITDA. Not only is mass gaming more profitable – junket operators take a big cut of the profits from VIPs – but it also has a very long growth runway. Gambling is extremely popular in China and Macau is the only place where it's legal. The Chinese and Macau governments want Macau to be a world-class tourist destination and are making a number of very large infrastructure investments to facilitate access to it by all types of consumers.

We also don't believe the market is giving the company adequate credit for a large, non-earning asset, its new Studio City property in Macau that is scheduled to open in the early fall. It's a $3.2 billion project that in addition to traditional hotel and casino operations will have a number of non-gaming attractions, including the highest Ferris wheel in Asia and a Batman-themed flight-simulation ride. A year or two from now, assuming a 20% return on invested capital – conservative for this market – Studio City could be generating at least $500 million in EBITDA.

Finally, we like the high barriers to entry in Macau. There are only six concessionaires and we don't expect new ones to be added. The land supply is constrained. The government also keeps a tight rein on supply. There are currently something less than 6,000 tables in Macau and regulators have indicated they'll allow that to increase maybe 3% annually going forward.

You haven't mentioned the "people" part of the equation yet.

MS: Melco International is 50% owned by Lawrence Ho, who is also the CEO of Melco Crown. He's young, only 38, and is the son of Stanley Ho, the founding father of Macau gaming. He has proven to be both an excellent owner/operator and a smart capital allocator. He's a Canadian citizen, but he lives in Hong Kong/Macau, has a clean-as-a-whistle reputation and has all the right relationships in the region. He's been a pioneer in pursuing the premium mass customer and we expect him to keep the company on that path.

Are you finding layers of discounted value in Melco International shares, now trading at HK$11.20?

MS: Yes. The stake in Melco Crown, at today's market price, is worth 160% of Melco International's market cap. On top of that, we believe Melco Crown itself is cheap. It now trades at around $18, but if we appraise the Studio City property on its prospective earnings a year or two out and make very conservative assumptions about the existing assets improving from depressed levels, we think it's worth $27-28. At that value, with no conglomerate discount, Melco International shares would trade in the mid-HK$20s.

We don't have to assume the VIP business is coming back. For us, this is a bet on Chinese mass consumption and rising disposable incomes. That we can make that play at a 40% holding-company discount is pretty incredible.

Why are you bullish on the prospects for Adidas [ADS:GR]?

Scott Cobb: This isn't a stock that typically meets our valuation criteria, but we added it to the portfolio last summer as the shares were driven down by three factors, two of which we considered short term and the other of which we thought was resolvable, if not a particularly quick fix.

The company consists of three primary brands, Adidas, TaylorMade in golf, and Reebok. Five years ago it set an operating-margin target of 11% by 2015, but it became clear early last year that it would miss that objective badly. One problem was the terrible golf market in the U.S., which led to oversupply and the need to take steep discounts to clear out inventory. That caused a loss of about 250 basis points of margin in 2014. The other problem was Russia, which knocked another 200 basis points off the margin as consumer spending fell off a cliff there and the ruble collapsed. We're not calling a turn in either of these cases, but we think the company has responded well and there's no reason those businesses can't relatively soon get back at least to where they were.

The longer-term reason the stock is cheap has been the performance of the core Adidas brand in the U.S., where it has been losing market share to Nike and Under Armour. While the Adidas brand earns double-digit margins that are neck-and-neck with Nike's almost everywhere else, it's a single-digit-margin business in the U.S., where Nike earns in the mid-20s before corporate expenses.

What gives you confidence the U.S. business can improve?

Scott Cobb: The company a year ago named an American, Mark King, as president of its North American business and elevated another American, Eric Liedtke, to the executive board as head of global

INVESTMENT SNAPSHOT

Melco International Development
(Hong Kong: 200:HK)

Business: Holding company whose primary asset is Melco Crown Entertainment, one of six commissioned casino operators in Macau, China's sole venue for legalized gambling.

Share Information
(@6/29/15, Exchange Rate: $1 = HK$7.752):

Price	**HK$11.18**
52-Week Range	HK$10.40 – HK$25.40
Dividend Yield	1.3%
Market Cap	HK$17.29 billion

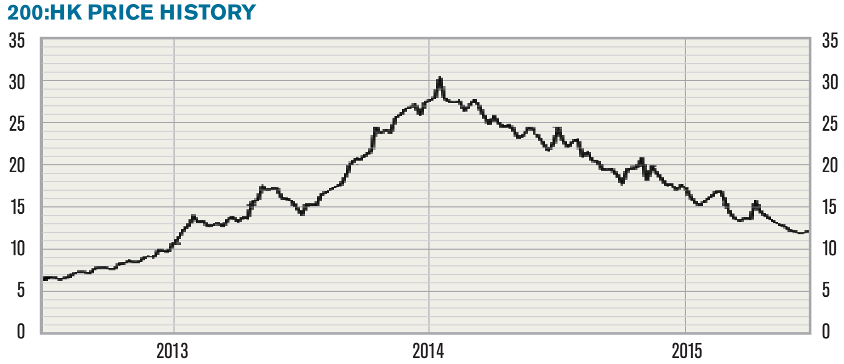
Financials (2014):

Revenue	HK$201.7 million
Net Profit	HK$1.44 billion
Book Value	HK$12.72 billion

Valuation Metrics
(@6/29/15):

	200:HK	Russell 2000
P/E (TTM)	11.6	80.3

200:HK PRICE HISTORY



THE BOTTOM LINE

The gloom over Macau gaming has been overdone in the company's case, says Manish Sharma, who argues that its shorter-term and longer-term prospects in a long-runway market are being ignored. With no conglomerate discount and its primary asset trading at his appraisal value on normalized earnings, the stock would trade in the mid-HK$20s.

Sources: Company reports, other publicly available information

brands. We think both are doing the right things to get the company back on track in the U.S. They have reduced the number of products on offer and are spending heavily on advertising and on better distribution with retailers like Foot Locker and Dick's Sporting Goods. They're upgrading company-owned stores. They're rolling out a line of running shoes with what the company calls "boost" technology, which has been well received in other markets. We like that they didn't renew their NBA contract, where Nike is already dominant, and instead are making broader and more strategic sponsorship investments.

Since we've been shareholders the company's supervisory board has also taken several other steps that give us confidence. They announced a share buyback of almost 10% of the company, borrowing money at 1.5% to do so, making it very value accretive. They sold Rockport for almost twice our appraisal value of it. They also announced a search for the successor to CEO Herbert Hainer. All of that indicates to us that we have good partners who understand the value of the brand and are going to continue to drive that value going forward.

How do you see this translating into upside for the stock, now at €68.70?

Scott Cobb: Our appraisal value for the stock today is around €90 per share. We think that's conservative and it's driven mostly by our assumption that operating margins over the next couple of years increase from today's 6-7% to closer to 10%. That doesn't include much upside from a turn in the U.S. or from improved margins at Reebok, which is having success in repositioning itself at the center of the whole cross-fit movement. With incremental good news in those areas, 11-12% margins are easily within reach.

Another way to come at the value is through a sum of the parts, valuing Adidas, Reebok and TaylorMade separately. We think the two secondary brands are worth at least 1x revenue, which is what the company got in selling Rockport earlier this year and is at the low end of public comps. If we assume 1.5x for core Adidas, the overall value would be somewhere north of €100 per share. That seems conservative given that Nike trades at 2.5x revenue and Under Armour is over 4x.

Are you expecting any fallout for Adidas from the FIFA scandal?

Scott Cobb: There's been no mention of Adidas being caught up in any bad behavior. Broadly speaking, anything that improves the stewardship of global soccer, the most-watched sport in the world and where Adidas is the clear leader, should be a good thing for the company.

As old-line European holding companies go, Exor [EXO:IM] has been quite active in refashioning its portfolio. Do you expect that to continue?

Josh Shores: Exor is the Agnelli family's investment arm, which has been transformed over the past several years by John Elkann, Gianni Agnelli's grandson. The latest iteration began when Exor listed on the Italian Stock Exchange in 2009, setting off a period of transformation that has unlocked a tremendous amount of value. We do expect that to continue.

The company's primary assets today, accounting for 60-65% of net asset value, are stakes in Fiat Chrysler Automobiles [FCAU] and in CNH Industrial [CNHI], which sells agricultural equipment and heavy trucks. Each has its challenges, both structural and cyclical, but is headed by

INVESTMENT SNAPSHOT

Adidas
(Xetra: ADS:GR)

Business: Global manufacture, marketing and distribution of sports footwear, apparel and equipment, primarily under the Adidas, Reebok and TaylorMade brand names.

Share Information
(@6/29/15, Exchange Rate: $1 = €0.890):

Price	**€68.70**
52-Week Range	€52.94 – €78.05
Dividend Yield	2.2%
Market Cap	€14.37 billion

Financials (2014):

Revenue	€14.53 billion
Operating Margin	6.6%
Net Profit Margin	3.9%

Valuation Metrics
(@6/29/15):

	ADS:GR	S&P 500
P/E (TTM)	24.0	21.5

ADS:GR PRICE HISTORY

THE BOTTOM LINE

The company is doing the right things on several fronts to capitalize on its core brand strength and address its lagging operating and share-price performance, says Scott Cobb. Assuming it is successful in driving operating profits back to a more normal 10%-plus level in the next couple of years, his appraisal value for the shares is at least €90.

Sources: Company reports, other publicly available information

Sergio Marchionne – he's CEO of Fiat Chrysler and Chairman of CNH – who we believe is one of the great business operators of the last ten or fifteen years.

What levers can Marchionne and Elkann pull to unlock value in those businesses?

JS: One already announced is the spinoff of Ferrari from Fiat Chrysler, due to happen early next year. That will leave the company with an assortment of brands, with Jeep by far being the most valuable and also including Fiat, Maserati, RAM, Chrysler and Dodge. From a valuation perspective, we think Ferrari and Jeep get you very close to the current market value of Fiat Chrysler, leaving the remaining brands as free options on the upside. It's a tricky hand to play, but we think they have the right player. Marchionne has talked about the need for consolidation in the auto business, and we wouldn't be surprised if he's a seller rather than a buyer.

With CNH, we believe its agricultural assets are overly discounted because of where we are in the cycle. We also don't think the company's truck business, whose key brand is Iveco, is a long-term fit. Given our view that CNH's current $12.5 billion market cap ascribes zero value to trucks, any effort to make CNH a pure play in agriculture is likely to unlock value.

Without specifics it's hard to put a number on what this is worth, but there's also option value in a cash position that will equal roughly 11% of NAV once the sale of Exor's holding in real-estate services firm Cushman & Wakefield closes. The company has made an offer to buy Bermuda reinsurer PartnerRe, but whichever way that goes, in John Elkann's hands we expect any cash to be put to productive use. [*Note*: PartnerRe has solicited competing offers and is now in play.]

At a recent €43.20, how cheap do you consider Exor's shares?

JS: Our sum-of-the-parts appraisal today is in the mid-€50s, which includes a 10% holding-company discount. We don't always apply that, but here the discount over time has averaged that level so we think it's appropriate. That's not to say the stock won't trade through NAV – in fact it's likely it will over the next five years – but we don't want to count on that.

The story here ultimately will be more about the growth in net asset value than the discount. With the partners we have in Elkann and Marchionne and the levers they have at their disposal, we're betting that value growth alone can make this more than worth our while.

Describe the investment case for the recently created Cheung Kong Property?

KS: Cheung Kong Property, which just started trading earlier this month, is the combination of the real estate assets held previously by two of Li Ka-Shing's holding companies, Hutchison Whampoa and Cheung Kong Holdings. It is one of the largest landlords in Hong Kong, with a broad portfolio of residential, hotel and commercial properties that make up around 60% of total assets. Another 30% of the asset base consists of something on the order of 150 million square feet of mostly residential development property, at various stages in the development process, in China. Less than 10% of its assets are outside Hong Kong and China, located primarily in the U.K. and Singapore.

You don't have to watch CNBC for long to know that there are plenty of concerns around current real estate values in both Hong Kong and China. What those concerns miss when it comes to a company

INVESTMENT SNAPSHOT

Exor
(Italy: EXO:IM)

Business: Investment holding company based in Italy with two largest holdings today in Fiat Chrysler Automobiles and agricultural-equipment maker CNH Industrial.

Share Information
(@6/29/15, Exchange Rate: $1 = €0.890):

Price	**€43.20**
52-Week Range	€26.62 – €45.92
Dividend Yield	0.8%
Market Cap	€10.64 billion

Financials (2014):

Net Investment Income	€146.6 million
Net Profit	€51.8 million
Net Asset Value	€10.16 billion

Valuation Metrics
(@6/29/15):

	EXO:IM	S&P 500
P/E (TTM)	29.8	21.5

EXO:IM PRICE HISTORY

THE BOTTOM LINE

The company not only has a number of potential levers to pull to unlock value in its key assets but it also has the right people pulling them in John Elkann and Sergio Marchionne, says Josh Shores. He pegs the shares' sum-of-the-parts value today in the mid-€50s, but adds that "the story here ultimately will be more about the growth in net asset value."

Sources: Company reports, other publicly available information

like Cheung Kong is the cost basis at which it owns the vast majority of its properties. Its residential land bank in China, for example, was mostly assembled when no one was interested in Chinese real estate and is held on the books at a blended average of approximately HK$300 per square foot. That's in a market where average selling prices are closer to HK$1,750 per square foot. There's a huge margin built in that we don't think most investors appreciate.

It says a lot to us that many of the big, old-line Hong Kong landlords have been playing the arbitrage between what you pay today for real estate in the capital markets and what you pay for actual physical property. Staley mentioned Li Ka-Shing buying stock recently in Cheung Kong Property, and insider buying in Hong Kong real estate is generally very high. Some companies have been selling buildings at 3% cap rates and buying back their own stock or the stock of subsidiaries at what are effectively 7-9% cap rates. These are not dumb people.

Cheung Kong Property shares have been slow out of the gate, having closed on their first day of trading at HK$74.10 but now trading around HK$63. How are you looking at valuation?

KS: The prospectus for the spinoff details an independent valuation, which we believe was conservatively done, that arrives at a net asset value of close to HK$102 per share. That valuation is certainly low relative to the values at which properties of all types are changing hands today. The company is now well covered and you'll see analysts getting to HK$100 per share or more in value but then assigning a big, arbitrary holding-company discount to arrive at a target price not far from where the stock trades today. I don't think that's legitimate. If you liquidated the company today you'd get over HK$100 per share.

Absent a liquidation, does the discount ever close?

KS: Stocks like this historically do not trade at a permanent discount. There's a case to be made that the type of high-profile restructuring that just went on here will help reduce holding-company discounts over time. Many companies in Asia are undergoing a generational change from the owner-founder to a new generation with often western-trained leadership. It won't happen in every case, but that has the potential to result in fairly dramatic shifts in capital allocation for the better. In those cases big discounts to book value will be less justified.

Describe one or two positions you've sold recently and why?

Scott Cobb: Ferrovial [FER:SM], a Spanish company that owns, builds and manages infrastructure assets around the world, is a classic example of our process working well. We bought it in 2011 when macro concerns about Europe and the euro hit the stock hard, even though 95% of its assets were outside the euro zone. When the stock recovered into the high teens, it hit our appraisal value and that means we sell. We were loath to sell because it's such a great business, with massive pricing power, but putting a higher value on it would have required the types of macro bets we just won't make.

Another recent sale would be Vopak [VPK:NA], which is the world's leading independent tank-storage provider for the oil and chemical industries. It arguably has a sustainable competitive advantage and the stock was cheap on conservative assumptions, but in addition to concluding

INVESTMENT SNAPSHOT

Cheung Kong Property
(Hong Kong: 1113:HK)

Business: Recently spun-off holding company with primary investments in residential and commercial real estate assets located throughout Hong Kong and China.

Share Information
(@6/29/15, Exchange Rate: $1 = HK$7.752):

Price	**HK$63.20**
52-Week Range	HK$63.00 – HK$77.55
Dividend Yield	0.0%
Market Cap	HK$243.93 billion

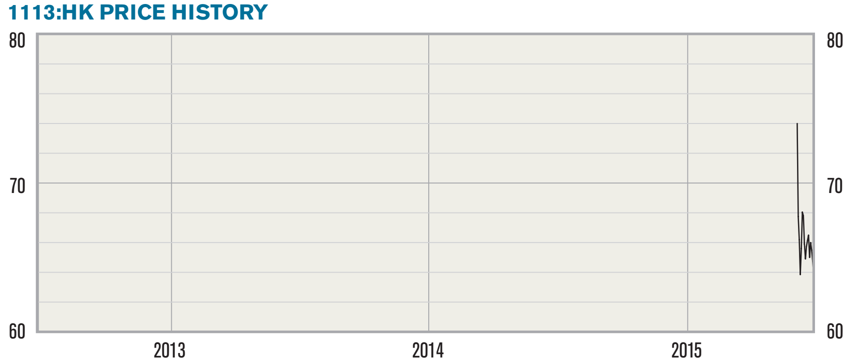
Financials (FY2014, pro-forma):

Revenue	HK$46.60 billion
EBIT Margin	40.8%
Book Value Per Share	HK$98.64

Valuation Metrics
(@6/29/15):

	1113:HK	S&P 500
P/E (TTM)	n/a	21.5

1113:HK PRICE HISTORY



THE BOTTOM LINE

General concerns over the type of Hong Kong and Chinese real estate the company owns don't recognize the margin of safety built in from it acquiring most of its properties at way below current market prices, says Ken Siazon. He considers the HK$102-per-share independent valuation of the newly public company's net assets to be conservative.

Sources: Company reports, other publicly available information

the business prospects were more tied to the direction of commodity prices than we were comfortable with, we lost confidence that management's capital-allocation priorities were fully aligned with ours. We would have liked to see more emphasis on buying back shares and less on investing in new terminals.

Any lessons to learn from recent mistakes?

Staley Cates: What's hurt us on performance in the past year are our Macau names. At the risk of sounding stubborn, I wouldn't yet call those mistakes and we've added to our positions. The recent results have been bad and the short-term outlook remains cloudy. Do I have anything to get excited about in the next year? Probably not. But do all those clouds lift in three to five years? We believe they will.

In the International fund we did make two unforced errors that we hope to learn from, a Brazilian energy company called HRT and a privately held Brazilian iron-ore producer called Manabi. We learned a range of things there, about investing in Brazil, about investing in non-earning resource plays, about putting too much emphasis on buying from distressed sellers, about investing in IPOs – which HRT was – and about investing in non-public securities. Guess how many IPOs and private things we expect to do now?

Over time, though, I'd say most of our mistakes have been in the people category of "business, people and price." It's rare that we'll identify a good business and it turns out not to be, and even rarer that we'll make a mistake appraising the business, given how conservative we are. Assessing humans is the tough one and I think it always will be.

Which only highlights the importance of the quality of the people you partner with. That outweighs everything. The biggest winners I've had as an analyst have probably been Yum Brands [YUM], which we owned for 15 years and FedEx, which we still own after maybe 20 years. My original spreadsheet for Yum had nothing on KFC China, it was more about refranchising and improving a bunch of U.S. fast-food stores. KFC China ended up being $15 billion of the net asset value and made the stock a giant winner for us. It wasn't my being such a wise value disciple in spotting this dollar for 60 cents, it was because David Novak and Sam Su created something from nothing in China.

Likewise with FedEx. We all know about Fred Smith's Yale paper that he got a lousy grade on, how he got landing slots in China way before everyone else, and how he strung together this beautiful air network. For all that maybe his most valuable move was purchasing a company called RPS in 1997 to get into the ground-delivery business. FedEx paid $2.4 billion for it and it's worth probably $30 billion today, in addition to adding to the express business's value proposition. Again, my recognizing Fred Smith as a good partner turned out to be a lot more important than my finding a 60-cent buck. VII

See following page for important disclosures

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 Partners International Fund and the MSCI EAFE for the one, five, ten, and since inception periods ended June 30, 2015 are as follows:

Longleaf Partners International Fund: -13.91%, 6.26%, 3.25%, 7.67% (inception October 26, 1998).

MSCI EAFE: -4.22%, 9.54%, 5.12%, 4.65%.

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 annual expense ratio for the Longleaf Partners International Fund is 1.25%. *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.*

The Longleaf Partners International Fund seeks long-term capital growth.

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.

The statements and opinions expressed are those of the speakers and are as of the date of the interview. 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.**

As of June 30, 2015, the Top 10 holdings in the Longleaf Partners International Fund were as follows: Lafarge 7.4%; Exor 7.3%, Colt Group 6.7%, Melco International 6.4%; Adidas 6.3%; CK Hutchison 6.2%; K Wah 6.0%; OCI 4.7%; Vivendi 4.6%; Philips 4.5%. Adjusted for sale of warrants and purchase of underlying stock, Genting Berhad had a 7.5% weighting.

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.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. An index cannot be invested in directly.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. An index cannot be invested in directly.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

EBIT Margin is a company's earnings before interest and taxes divided by net revenue.

Dividend yield is a stock's dividend as a percentage of the stock price.

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

Book Value is the value of an asset as carried on a company's balance sheet.

IPO (initial public offering) is the first sale of stock by a company to the public.

The charts shown are in the following units: Melco International – Hong Kong Dollars; Adidas – Euros; Exor – Euros; Cheung Kong Property – Hong Kong Dollars.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

Funds distributed by ALPS Distributors, Inc.

LLP000317
12/31/15