Partners Fund Management Discussion

Longleaf Partners Fund gained 11.6% in the first quarter, surpassing the S&P 500 Index's rise of 10.6%, and far outpacing our absolute annual return goal of inflation plus 10%. The Fund also delivered superior absolute and relative returns over the last year. The Fund's five and ten year results remain hindered by the declines in the financial crisis in 2008. Since the Fund's low on March 9, 2009, the Partners Fund has gained 182.7% versus 153.0% for the S&P 500. The Fund's 25 year cumulative results are over 50% higher than those of the Index.

Cumulative Returns at March 31, 2013

	Since Inception 4/8/87	25 Year	20 Year	15 Year	Ten Year	Five Year	Since 3/9/09	One Year	1Q
Partners Fund	**1464.24%**	**1451.11%**	**610.51%**	**156.91%**	**107.01%**	**26.87%**	**182.73%**	**15.22%**	**11.63%**
S&P 500	872.35	960.71	414.19	87.17	126.78	32.64	152.96	13.96	10.61

See page 6 for additional performance information.

Of the Fund's 19 positions held during the quarter, 18 positively contributed to the strong returns. Dell was the largest driver with the stock up 42% as Michael Dell and private equity firm Silver Lake proposed to take the company private. We are fighting the buyout offer because it removes shareholders' option to share in Dell's future success by forcing them to sell at a price we believe is significantly below corporate worth and reflective only of the declining PC business, which represents less than 20% of our appraisal of the company. Long-term owners have supported Dell in its transformation to an Enterprise Solutions and Services (ESS) company as management spent over $13 billion on acquisition of non-PC businesses. Based on Dell's 2014 estimates, ESS, a growing segment, will comprise over a third of revenue and almost 60% of Non-GAAP operating income. Dell's price justification, however, focuses on the PC struggles, reversing in substance what management has been saying for the last three years about its transformation and Dell's bright future. Shareholders who have paid the price to build the foundation for Dell's future success deserve the right to participate in the rewards. In the event of no "superior proposal," a proxy vote on the current offer will likely occur mid-summer. To pass, the go-private proposal must receive more than a majority of votes cast excluding Michael Dell's approximately 15%. In mid May Southeastern and Icahn Enterprises submitted a letter outlining what we believe to be a superior alternative to the Dell / Silver Lake transaction, and also submitted nominees to replace the current Board in the event the take-private transaction is voted down. In either case, our goal would be to implement a leveraged recapitalization that allows shareholders to remain participants in the company's future while giving them a choice about whether to receive a large special dividend in the form of cash or stock. As we go to print this report, the situation remains very fluid.

Over the last three months, Chesapeake gained 22%, driven in part by a rise in natural gas spot prices above $4/mcf. Chesapeake's board announced that CEO Aubrey McClendon would step down and made progress on several other fronts, selling a portion of their Mississippi Lime play into a joint venture with Sinopec, and reducing capex to meet spending targets. The stock remains at a significant discount to our appraisal. Travelers, the property and casualty insurer, added 17% in the quarter helped by lower-than-expected catastrophe losses from Hurricane Sandy, as well as positive pricing and renewal trends. Management continued to return capital to shareholders, buying back $400 million of undervalued stock and paying $178 million in dividends. Mondelez, which we bought when this snack business was spun out of Kraft last fall, rose 21% with attention placed on the company by Trian's newly-held stake. DIRECTV continued to grow its cash flow through pricing in the U.S. satellite business and increasing subscribers in Latin America. The stock rose 13% as management used excess cash to shrink undervalued shares at a 16% annualized rate and walked away from bidding for Vivendi's GVT , a Brazilian internet and phone business. Philips gained 13% as the company grew revenues and margins in its three core businesses of Healthcare, Lighting and Consumer. Philips sold its consumer electronics business and is dropping "Electronics" from the corporate name to better reflect its lighting, healthcare, and well being focus.

Level(3) posted the only negative return in the portfolio, declining 12%. Although the company achieved its goal of 2% sequential sales growth, extra costs reduced operating income versus expectations. Management lowered EBITDA guidance accordingly. Given our disappointment over the last several years in Level(3)'s results, we worked cooperatively with the company to add Peter van Oppen to the board, and his appointment became effective during the quarter. Peter owns a private investment firm focused on technology and telecommunications and has specific knowledge of both long haul and enterprise businesses. Additionally, his financial background and experience on multiple boards will bring added discipline. In mid-March, Jim Crowe announced his plan to resign, and by mid-April, COO Jeff Storey was appointed the new CEO. The solid board, combined with Jeff's experience and operational focus, make us optimistic about the value of this company's assets being recognized over time.

As the market rose, prices grew faster than values. We trimmed several holdings and sold three that approached our appraisals. Disney, which we first bought in 2001, gained over 280% during our twelve year holding period, in spite of a meaningful mark down in the financial crisis. The strength of ESPN provided steady growth, and theme parks, though more cyclical, also increased their value over time. Management repurchased undervalued shares periodically and otherwise made several large acquisitions that proved successful, including Pixar and Marvel. Because the company's earnings can swing with movies and economic cycles, we hope to get another opportunity to own this company at the requisite discount sometime down the road. We also sold our Cemex converts, which we exchanged for our equity stake last year. These convertible bonds benefitted from both tightening spreads and a rising equity price, which rose to over $12 in the quarter from its low of under $3 eighteen months prior. While our appraisal took a hit in the economic crisis, Lorenzo Zambrano and his team did admirable work in restructuring the company to manage its debt and reduce costs in response to demand levels at half of peak. We held mutual fund firm Franklin Resources for a much shorter period, since late 2011. As markets rose, assets and profits grew, driving the stock closer to our appraisal. The Johnsons have been successful stewards of our capital in the past, and we hope to have a chance to partner with them again in the future. We identified only one new qualifier, Murphy Oil, in the quarter.

At the end of the quarter the Fund held 17% in cash awaiting our next opportunities. The average P/V on our sixteen positions was in the low-70s%. We expect our companies to continue to build their values, and with patience and discipline, we will find new qualifiers that will help drive future performance.

As the market rose, prices grew faster than values.