March 31, 2017

1Q17

Longleaf Partners Fund Commentary

Longleaf Partners Fund gained 3.90% in the first quarter, meaningfully exceeding our absolute annual return goal of inflation plus 10%, but falling short of the S&P 500 Index's 6.07%. This performance followed almost 900 basis points of benchmark outperformance as well as strong absolute results in 2016. In the quarter, we saw value growth and stock appreciation at some of our higher weighted investments.

We trailed the index for three reasons. First, we mostly "missed out" on the rally in Information Technology, which is over 20% of the S&P 500's composition and drove a large portion of its return in the quarter. While our one IT investment, Alphabet, performed well, we have not found other qualifiers in this higher hurdle sector. Second, our large cash weighting in a rising market held back returns versus the fully-invested index. Holding cash is never a top-down decision for us, but rather is a residual effect of selling investments that no longer qualify and not finding enough new opportunities that meet our criteria. Being disciplined and patient is the right thing to do at a time of 30-year high bullish sentiment combined with higher-than-normal multiples on high margins, but it can make for disappointing relative comparisons in the short term. Third, we had a few detractors in the quarter. Our two energy investments – while lower weighted in the portfolio than in recent years – declined due to commodity price fluctuations, even though our management and board partners continued to make the right moves for the long term. At Ralph Lauren, our case changed significantly after a management change, so we sold at a small loss to focus on better opportunities.

We did not buy any new securities or add to any existing investments in the quarter. We trimmed two holdings and exited another two. Our on-deck list is smaller than usual, but we are following closely a few capably led, strong businesses that would be in our buying range with just a little price pull back.

Contributors/Detractors

(1Q portfolio return; 1Q Fund contribution)

Wynn Resorts (+33%; +1.99%), the luxury gaming and hotel operator with prime properties in Las Vegas, Macau, and Boston, was the largest contributor in the quarter. Macau's rebound continued, as that market now has grown for several months, some at double-digit rates. Wynn's Palace property is ramping up from non-earning status more quickly than expected and gaining share as the premium property in Macau. Las Vegas continues to be a steady market, and the company is making progress on developing and monetizing its under earning golf course land. Wynn also is likely to benefit from the NFL coming to Las Vegas. Construction on the Boston resort is moving ahead as planned. Wynn has a large amount of optionality, and we are confident that CEO Steve Wynn and his team can maximize our outcome. Given the price strength and the position size, we trimmed the stock in the quarter.

CNH Industrial (+11%; +0.61%), the maker of agricultural equipment, commercial vehicles and construction equipment, was another contributor in the quarter. The company once again reported higher pricing in the core agricultural equipment segment at a time of down units. We applaud CEO Rich Tobin for good cost controls, as margins came in better than we expected. There are early signs that the agricultural market is stabilizing after years of decline. When demand for equipment turns, the company's strong incremental margins will be working in our favor. We believe that management and the board are open to further rationalizing the company's assets, as our vested partners, large owner John Elkann and Chairman Sergio Marchionne, have done at other investments in the past.

LafargeHolcim (+13%; +0.60%), the world's largest global cement, aggregates, and ready-mix concrete producer, also added to the Fund's return. The company's 4Q results demonstrated continued success in pricing, operating cost control, and disciplined capital spending which helped earnings before interest, tax, depreciation and amortization (EBITDA) grow 15.5% and free cash flow increase 107%. For 2017, Eric Olsen guided to 2-4% volume growth helped by resumed growth in India and Latin America and continued volume growth in the U.S. Improved volumes combined with pricing and cost controls should drive double-digit EBITDA growth and strong free cash flow (FCF) generation. FCF along with divestitures has fortified LafargeHolcim's balance sheet, and the competitive landscape is positive with few slated capacity additions. We expect dividends and share repurchases to accelerate as cash flow grows.

Chesapeake Energy (-15%; -0.70%), one of the largest U.S. producers of natural gas, oil, and natural gas liquids, was the

Average Annual Total Returns (3/31/17): Since Inception (4/8/87): 10.47%, Ten Year: 3.37%, Five Year: 7.82%; One Year: 20.23%

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.

As reported in the Prospectus dated May 1, 2016, the total expense ratio for the Longleaf Partners Fund is 0.93%. The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

largest detractor in the quarter. At the macro level, declines in oil and gas prices pressured the stock. We use the futures strip for both commodities in our appraisal of Chesapeake, even though they are currently trading below the global energy industry's long run marginal costs. CEO Doug Lawler further improved the company's financial strength and flexibility, closing two Haynesville deals and reporting another solid operational quarter. We believe he and his team will continue to execute additional asset sales and maintain both operating and capital expense discipline.

Ralph Lauren, (-15%; -0.62%), the upscale retail brand, declined following the departure of CEO Stefan Larsson after less than two years at the helm. Our case was built on the potential for Larsson and Lauren to form a complimentary business and creative team, and the early results were promising as they cut costs and rationalized unnecessary stock keeping units. But when these two leaders were not able to coexist, a big part of our case changed. Rather than wait to see if the operating plan could continue without Larsson's guidance, we sold our position. The disappointing outcome had only a minor impact on our return during our seven month investment period because of the operating progress the company made in a short period and because we have begun sizing new investments at less than a full 5% position while we gain more in-depth knowledge of the business and people as an owner.

Portfolio Activity

In addition to selling **Ralph Lauren**, we also exited **DuPont** in the quarter. We earned a 60% gain in DuPont when price reached our appraisal. We bought the stock in August 2015 when questions surrounded both the business quality and management, but we believed the board, which was under shareholder pressure, would address the company's leadership, cost structure, and capital allocation to help the conglomerate focus on its more dominant, growing segments. The businesses performed solidly, and the arrival of CEO Ed Breen with his cost cutting plans and smart merger with Dow turned the investment into a success. We will continue to watch the company and its spinoffs going forward.

Outlook

Our P/V ratio is higher than usual in the mid-70s%. We also are holding a 24% cash position. While both of these numbers could seem discouraging at first glance, we feel that the strong businesses we own and the superior management teams running them will be able to grow their values per share at above average rates. If times get tougher, we have stronger-than-usual balance sheets that will allow our investees to go on offense. Our cash will eventually turn into our next great qualifiers. We cannot tell you when that will happen, but we are confident that our patience will be rewarded as it has in the past.

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.

RISKS

The Longleaf Partners 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. Mid-cap stocks held by the Fund may be more volatile than those of larger companies.

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.

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.

Free Cash Flow (FCF) is a measure of a company's ability to generate the cash flow necessary to maintain operations. Generally, it is calculated as operating cash flow minus capital expenditures.

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

As of March 31 2017, the holdings discussed represented the following percentages of the Longleaf Partners Fund: Alphabet, 7.0%; Ralph Lauren, 0%; Wynn, 6.7%; CNH Industrial, 4.8%; LafargeHolcim, 4.9%; Chesapeake Energy, 3.8%; DuPont, 0%. Fund holdings are subject to change and holdings discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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