March 31, 2017

Longleaf Partners Small-Cap Fund Commentary

Longleaf Partners Small-Cap Fund gained 3.93% in the first quarter and outperformed the Russell 2000 Index's 2.47%. Our absolute return surpassed our annual absolute goal of inflation plus 10%, continuing the strong performance from 2016. We exceeded the market's return thanks to strong performance from key holdings and pullbacks from some of the "Trump rally" highfliers that we did not own.

Companies with substantial non-earning assets (NEAs) were particularly rewarding in the quarter. Wynn Resorts, Graham Holdings, and OCI all have or had a number of assets that were not reflected in a simple earnings per share (EPS) calculation, and they also are run by owners who are willing to think long-term. One of the largest contributors over the last 12 months — Formula One Group (formerly Liberty Media Group) — started off as an NEA-heavy company before its great acquisition of Formula One turned non-earning cash into what will be a strong free cash flow generation business.

We did not buy any new securities and only added to two existing investments in the quarter. We trimmed five positions and exited another three. 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%, +1.78%), 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.

Graham Holdings (+17%; +0.95%), the media, education, and services company, was another contributor in the quarter. The Kaplan International segment reported relatively good results for the first time since 2015 and showed signs of having bottomed out as cost cuts should kick in this year. Graham's TV segment continued to deliver industry-leading results, and the market began to anticipate TV consolidation opportunities under a less regulatory administration. We applaud CEO Tim O'Shaughnessy for buying back a meaningful amount of stock at discounted prices last year, and we are excited about his ability to go on offense with Graham's formidable balance sheet.

Formula One Group (+9%; +0.59%), the media and entertainment company controlled by Liberty Media Corporation and formerly named Liberty Media Group, contributed positively in the company's first quarter as the owner of the global car racing business, Formula One (F1). While there was only one race late in the quarter, our management partners were hard at work making positive changes from day one of their 100% ownership of F1. F1 CEO Chase Carey significantly upgraded his team, adding racing legend Ross Brawn and former ESPN executive Sean Bratches to work on the sport's competitiveness and revenue maximization, respectively. The company also refinanced high cost debt to a lower rate and longer term. Formula One still owns a 34% stake in Live Nation, which reported a somewhat disappointing quarter but remains on track to grow nicely going forward.

Although several of our investments slightly declined in the quarter, none significantly detracted from the Fund's return.

Portfolio Changes

We sold **Triangle Petroleum**, **Tribune Media**, and **Rayonier** in the quarter. We exited Triangle, an oil and gas company, and recognized a loss when we were unwilling to put further capital into the business because of a lack of confidence in several qualitative aspects of the investment case after we had gotten to know the company better. Our second time owning media company Tribune was not nearly as gratifying as our first successful investment in the company's bonds as it came out of bankruptcy. This time, our value declined due to disappointing results at the TV division, a weak spectrum auction, and a lack of value growth from other assets. Our

Average Annual Total Returns (3/31/17): Since Inception (2/21/89): 11.14%, Ten Year: 7.80%, Five Year: 14.07%, One Year: 19.71%

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 ratios for the Longleaf Partners Small-Cap Fund is 0.91% The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

small positive return amid these disappointments speaks to the margin of safety in our initial purchase. We also sold timber REIT Rayonier late in the quarter after the company issued equity at a price that reinforced our assessment that the stock was at or near fair value. Over the three years we held the stock, a challenging timber environment hindered value growth, and while the discount we paid plus the dividend helped preserve our capital, our 12% total return was less than we anticipated.

Outlook

Our P/V ratio is higher than usual in the mid-70s%. We also are holding a 26% 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 Small-Cap 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. Smaller company stocks may be more volatile with less financial resources than those of larger companies.

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.

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.

Earnings per share (EPS) is the portion of a company's net income allocated to each share of common stock.

"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.

REIT is a real estate investment trust.

As of March 31,2017, the holdings discussed represented the following percentages of the Longleaf Partners Small-Cap Fund: Wynn, 6.4%; Graham Holdings, 6.2%; OCI, 5.1%; Formula One, 7.2%; Triangle Petroleum, 0%; Tribune Media, 0%; Rayonier, 0%. 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.

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