April 10, 2019

Longleaf Partners International Fund Commentary

1Q19

Longleaf Partners International Fund gained 12.52%, surpassing our annual goal of inflation plus 10% in the first quarter and exceeding the MSCI EAFE Index's 9.98% return. The last three month's results were similar to the compounding success of the last three years, where the Fund delivered 12.32% annually versus 7.27% for the Index.

Almost all the Fund's holdings made gains, and there were no notable decliners in the portfolio. The businesses that were primary drivers of performance had little in common beyond delivering solid results. As is normally the case in our concentrated, high active share portfolio, each company had its own idiosyncratic outcome - from overshooting cost reductions to returning capital to owners to rumored asset sales. In aggregate, European based investments were larger contributors than those in Asia, despite currency headwinds for the dollar versus European currencies.

The market's rebound, following a double-digit fourth quarter decline in 2018, provided a tailwind. Even as the issues of global economic slowdown, tariff and trade

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Average Annual Total Returns (3/31/19): Longleaf Partners International Fund: Since Inception (10/26/98): 7.62%, Ten Year: 8.87%, Five Year: 2.12%, One Year: 4.55%. MSCI EAFE Index: Since 10/26/98: 4.38%, Ten Year: 8.96%, Five Year: 2.33%, One Year: -3.71%.

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.

The total expense ratio for the Longleaf Partners International Fund is 1.19% (gross) and 1.15% (net). The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.15% of average annual net assets.

disruptions, and geopolitical unrest remained unresolved, investor concern appeared to dissipate. We have little insight into how macro questions about China's growth, Brexit's eventual outcome, inverted yield curves and trillions in negative yielding debt will be answered, but we are confident these uncertainties will continue to provide opportunities to disciplined, long-term business owners like ourselves. Indeed, we are finding plenty to do in Asia, the U.K. and Europe.

Even with the Fund's strong returns, most holdings sell for under 80% of our appraisal, and the entire portfolio remains in the high-60s%. During the quarter, we bought one new investment and added to several positions, including Lanxess, which we bought in 4Q18 and is a partially recycled Southeastern holding because it owns Chemtura, formerly a Longleaf Small-Cap investment. With cash below 5%, our biggest challenge is determining which new qualifiers present the best risk-adjusted return and whether those warrant replacing an existing investment. The breadth of opportunity leaves us optimistic about prospective long-term returns.

Contributors/Detractors

(Q1 Investment return; Q1 Fund contribution)

EXOR (20%, 1.57%), one of Europe's leading investment holding companies and the Fund's largest position, was a contributor. The main component pieces of our EXOR appraisal are FCA, PartnerRe, CNHI and Ferrari. In late 2018, FCA declared a special dividend after selling Magnetti Marelli and announced a new recurring dividend, doubling EXOR's annual corporate free cash flow (FCF). FCA's balance sheet started 2019 with €1.9 billion of net cash after the company generated €4.3 billion of Industrial FCF allowing the board to make these dividend commitments. EXOR CEO John Elkann is an owner-operator who has grown corporate value and seen the stock compound at nearly 20% per year since we invested in 2012. Notably, value has compounded just as quickly such that EXOR remains heavily discounted on our conservative appraisal. We have an overweight position in this collection of high-quality businesses and assets that have ample transformation value and are selling at a deep discount to the sum-of-the-parts and at lower multiples than peers.

OCI (35%, 1.32%), a leading producer of nitrogen fertilizers and methanol, was a strong contributor. OCI grew FCF 210% year-over-year and EBITDA (earnings before interest, taxes, depreciation, and amortization) over 100%. Strong cash generation should continue to help the company rapidly deleverage - net debt declined $327 million, and Net Debt/Operating Cash Flow fell from 7x to 4.4x over the last year. Volumes stepped up 16%, with U.S. assets increasing production up to 115% of nameplate, as OCI grew into its new capacities. Multiple strategic options are available to the company, which sells well below the replacement cost of its assets, and rumors of Saudi interest in the methanol plants helped the stock. CEO Nassef Sawiris is an owner operator who remains focused on value creation and recognition.

LafargeHolcim (20%, 1.32%), the world's largest global cement, aggregates, and ready-mix concrete producer, was another top contributor to the Fund's return. After eighteen months as CEO, Jan Jenisch is delivering both operating efficiencies and value-accretive asset sales. Recent results showed efficiency gains and pricing that offset cost inflation. Cost savings were ahead of target, with Aggregates and Ready-Mix EBITDA margins improving considerably. The company also eliminated CHF400 million in central corporate expenditures. These cost initiatives combined with more favorable markets should meaningfully grow LafargeHolcim's earnings power. The company has pushed through pricing in its North American business. Latin America and Middle East & Africa are showing signs of stabilizing in 2019. Europe should experience modest growth this year. The company closed the sale of its Indonesian assets at an attractive price, and management plans to accelerate divestments in other regions over the next two years, providing meaningful cash proceeds to reinvest.

Yum China (34%, 1.17%), the operator of KFC and Pizza Hut restaurants in China, was a contributor to performance during the quarter. Yum China (YUMC) reported good fourth quarter results with KFC recording same store sales growth of +3% on top of high comparables last year. Pizza Hut reported positive store traffic growth. These positive trends continued into the first two months of 2019, and YUMC's disciplined expense control mitigated margin pressure from promotions and cost inflation. The company remains committed to opening new stores, with the plan of adding 600-650 in 2019 and a total stores target of 10,000 by 2021. In addition to delivering solid operating results, CEO Joey Wat and CFO Jacky Lo returned $191 million to shareholders in the fourth quarter, primarily via share repurchases, and are committed to returning $1.5 billion over three years.

Melco International (16%, 1.12%), the Asian casino and resort holding company, rose after its operating business, Melco Resorts, reported strong Q4 results that beat forecasts. EBITDA gained 25% year-over-year, up 44% quarter-over-quarter. The new Morpheus Hotel within City of Dreams has ramped up well. Melco plans to build new non-gaming attractions at Studio City in 2019 to drive mass traffic and gross gaming revenue. The company has secured 98% ownership in the tender offer for its Philippines business. With more infrastructure built in the region, Macau's overall visitation, particularly of Melco's more important non-VIP business, should grow well longer term.

CK Asset (22%, 1.04%), the Hong Kong and China real estate company, reported solid results for 2018, with dividends increasing 12% year-over-year and book value per share growing 11%. In 2018, CK Asset sold the Center at below a 2.5% cap rate. CK Asset's hotel portfolio increased profits 22% with improvements in room rates and occupancy. Two hotels will open in 2019 and add around 15,000 rooms and serviced suites. Given relatively high land prices in Hong Kong, we expect Managing Director Victor Li to continue to deploy cash flow into global projects that offer attractive returns.

Portfolio Activity

We trimmed four of the Fund's stronger recent performers as their price to values (P/Vs) rose and reallocated to other investment opportunities. We bought one new, undisclosed position and added to several of the most discounted investments, including Lanxess, which we started buying in the fourth quarter. Lanxess is a specialty chemical company led by Matthias Zachert, viewed as a highly capable European CEO. Historically, the business was more cyclical and reliant on commodity products, led by a heavy emphasis on rubber production for tires. Since returning to Lanxess in 2014, Zachert has migrated the focus to specialty chemicals with stronger, less volatile growth prospects. The sale of the rubber business at a very attractive price, the 2017 acquisition of Chemtura, a focus on costs and efficiencies and a new share buyback program to take advantage of the low share price have highlighted Zachert's ability to drive long-term business value.

Team Update

We welcomed Taieun Moon as a junior analyst in our Singapore office in the quarter. Taieun interned for Southeastern last summer and joins us full time following his graduation from The University of Hong Kong. We also concluded our search for a junior analyst in London. Alicia Cardale will join Southeastern in May. She has interned at several investment firms and most recently worked at a U.K. real estate company. Alicia has a Master's degree in Real Estate from the University of Reading. We look forward to the broad depth that Taieun and Alicia will add to our research team.

In March, we shut down the concentrated Europe Fund ("SCV"). Although SCV had a strong performance record over its four years, in the last fifteen months the Fund's cash balance grew to more than three-quarters of NAV. Over the same period, the International Fund's cash declined from 22% to less than 3%, as we were finding opportunities, including several European qualifiers. SCV's idea generation was no longer benefitting Southeastern's broader client base, and our investment partners could own the most compelling European engagement opportunities via the more flexible and less costly International and Global Funds. Consequently, we returned the capital to our partners, much of which was internal to Southeastern and will be re-deployed into Longleaf International. Because Scott Cobb was solely focused on managing SCV, he will depart from Southeastern upon its closing. We thank Scott for his years of service to Southeastern and our clients.

Outlook

When prices become as discounted as they were in December, it is not surprising to see a strong rally. We believe, however, that the portfolio offers substantially more upside. The P/V is in the high-60s%, and cash is less than 5%. Additionally, we are finding a number of new opportunities that meet our criteria both in Asia and Europe. We are confident that we have a foundation of strong companies and solid partners that may deliver rewarding results over the next three years.

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 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.

MSCI EAFE Index (Europe, Australia, 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.

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.

Active share measures how much an equity portfolio's holdings differ from those of the benchmark index.

Brexit ("British exit") refers to the June 23, 2016 referendum by British voters to leave the European Union.

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.

Leverage refers to the use of debt. De-leverage refers to a decrease in debt.

Aggregates are materials such as sand or gravel that are ingredients in concrete.

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

Cap rate (capitalization rate) is the rate of return on a real estate investment property based on expected income.

As of March 31, 2019, the top ten holdings for the Longleaf Partners International Fund: EXOR, 8.2%; Melco, 7.2%; LafargeHolcim, 6.8%; CK Hutchison, 6.7%; MinebeaMitsumi, 5.6%; CK Asset Holdings, 5.1%; Millicom, 4.9%; OCI, 4.8%; Bollore, 4.7%; Great Eagle, 4.7%.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.