April 10, 2019

Longleaf Partners Fund Commentary

1Q19

Longleaf Partners Fund gained 11.88%, surpassing our annual goal of inflation plus 10% in the first quarter but underperforming the S&P 500 Index's 13.65% return. The market's rebound, following a double-digit fourth quarter decline in 2018, provided a tailwind. Almost all of the stocks in the portfolio made gains.

Even as the issues of global economic slowdown, tariff and trade disruptions, and geopolitical unrest remained unresolved, the investor concern that dominated late 2018 appeared to dissipate. We have little insight into how macro questions about trade, U.S. and China economic growth, and 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.

When stocks become as deeply discounted as we saw in December, it is not uncommon to have a big turnaround. The Fund's two worst performers in 2018, GE and Mattel, were by far the largest contributors for the first quarter, followed by LafargeHolcim, which had been among the larger 2018 detractors. The businesses at each of these companies have very different drivers, but each has an aligned CEO who

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Average Annual Total Returns for the Longleaf Partners Fund (3/31/19): Since Inception (4/8/87): 9.85%, Ten Year: 11.67%, Five Year: 1.69%, One Year: -5.77%. Average Annual Total Returns for the S&P 500 (3/31/19): Since Inception (4/8/87): 9.79%, Ten Year: 15.92%, Five Year: 10.91%, One Year: 9.50%.

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, 2018, the total expense ratio for the Longleaf Partners Fund is 0.95%.

took the reins in the last eighteen months and is delivering demonstrable operating and capital allocation progress.

Information Technology (IT) stocks drove the Index more than twice as much as any other sector. While the Fund's lack of exposure to IT contributed over 1% of underperformance, CenturyLink, the Fund's largest holding and biggest decliner, was the primary culprit. As discussed below, the stock's retreat, without any corresponding diminution in our appraisal, presented an opportunity to become more actively engaged to speed value growth and recognition.

We started the year actively assessing numerous new qualifiers, but the market's rally shortened the on-deck list. We did not buy any new investments during the quarter, and we sold two positions. Even with the double-digit return, we believe substantial upside remains in the portfolio, with only a couple of holdings selling at over an 80% price to value (P/V).

Contributors/Detractors

(Q1 Investment return; Q1 Fund contribution)

General Electric (37%, 2.51%), the aviation, healthcare and power company, was the largest contributor. CEO Larry Culp began fulfilling his promise to simplify operations and strengthen the balance sheet. Since becoming CEO in September, Culp and his team have funded GE Capital's mortgage liabilities and long-term care reserves, improved accounting across the board and sold numerous non-core assets for good prices. Deals for transportation, distributed power, lighting, Baker Hughes GE shares and biopharmaceuticals have closed or are scheduled to bring in cash by the end of the year. The biopharmaceuticals sale alone realized $21 billion plus a pension liability assumption at high multiples of revenues and earnings before interest, taxes, depreciation and amortization (EBITDA). GE Capital, historically the most difficult segment to appraise due to its complexity and leverage, is simpler and less leveraged than it has been for decades, and Culp still has assets to sell. Aviation announced strong quarterly results and increased annual guidance due to the success of the efficient LEAP engine. Beyond selling assets for full prices, Culp's operational priority is turning around the underperforming power segment. Returning to profitability in this segment will not happen this year, but the company will benefit over the long run from a healthy high-margin gas-turbine service business. After rallying almost 40% in three months, the stock still trades at a substantial discount to our value.

Mattel (30%, 1.93%), the toy and media company, was another large contributor. During the last quarter, Barbie and Hot Wheels grew nicely once again. Mattel's new media division demonstrated some of the possibilities for monetizing the company's brands, announcing Barbie and Hot Wheels movie joint ventures with Warner Brothers, an American Girl movie with MGM, and 22 television shows to distribute across multiple platforms. The company's earnings power should grow with a targeted 15% operating income margin over the next few years, following additional cost cuts, international inventory rationalization and longer-term investments during 2019. Management is focused on maximizing the value of the Barbie and Hot Wheels brands, while returning Fisher-Price, American Girl and Thomas to growth. Not only is the stock well below our current appraisal, but we expect that appraisal to grow rapidly over the next few years. CEO Ynon Kreiz personally bought $1 million of shares in the last few months.

LafargeHolcim (20%, 1.12%), the world's largest global cement, aggregates, and ready-mix concrete producer, was also a notable 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 and 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.

CK Asset (21%, 0.98%), 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.

Wynn Resorts (21%, 0.96%), the casino and hotel operator, grew revenues and EBITDA at the Wynn Palace in Macau 13% and 20% respectively in the fourth quarter. While Wynn's original property in Macau declined as expected with the ramp up of Wynn Palace, the combination of the two continued to grow, and Macau overall performed better than expectations as the first quarter went on. Domestically, Las Vegas revenues grew 3%, and the Boston Harbor resort is closer to its June opening after several years of construction and Massachusetts Gaming Commission hearings in April. New CEO Matt Maddox and the reshaped board demonstrated their shareholder alignment by repurchasing discounted shares at a 6% annualized pace.

CenturyLink (-19%, -1.72%), the fiber and telecom company, was the primary detractor to first quarter returns after a dividend cut. We were disappointed by that decision and filed a 13-D to enable us to become more active in the investment through seeking to improve the board, encouraging opportunistic asset sales and exploring creating tracking stocks for the company's two segments. Private-market transactions of assets comparable to some of CenturyLink's (CTL) fiber assets have been over 15X EBITDA, far above CTL's depressed 5X EBITDA stock price. In addition to monetizing some of this fiber, separating the enterprise and consumer segments into distinct tracking stocks could help highlight the values and different opportunity sets for both. We believe that adding board members with experience in fiber and financial transactions can bring additional capital allocation discipline to drive value recognition. We maintain our support for Jeff Storey and his team operationally even while disagreeing about some capital allocation items. Storey bought $1 million in shares personally in the quarter, and CFO Neel Dev, as well as multiple directors, also increased their ownership of the stock.

Portfolio Activity

We examined several prospective investments but did not purchase any new companies in the quarter. We sold two holdings following spin outs. GE completed the sale of its transportation business via the separation of Westinghouse Air Brake Technology, which traded at our appraisal upon the transaction. DowDuPont initiated the spin out of its Materials Science business, which will go by the Dow name. Dow's "when issued" price implied a full valuation for the remaining Agriculture and Specialty Chemicals segments, and we sold the position, which we had purchased in the fourth quarter, for a small gain.

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 net asset value. 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 the Longleaf Funds. 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

The Fund began the year at a rare discount, with the P/V below 60%. The double-digit rally is not surprising from such depressed prices. More encouraging is that rebounds from 50s% P/Vs historically continued over several years. With only 6% cash and the portfolio trading at a low-60s% P/V today, we believe there is substantial upside opportunity. Beyond the P/V math, we are seeing value growth at our companies, which should drive further opportunity. Additionally, our partners are taking proactive steps to drive value recognition at many of our holdings. We believe their actions can drive much stronger long-term results than we expect from the fully valued Index.

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.

The S&P 500 Growth Index represents the companies of the S&P 500 Index that are considered to have growth characteristics (e.g., using earnings per share growth rate and sales per share growth rate).

The S&P 500 Value Index represents the companies of the S&P 500 Index that are considered to have value characteristics (e.g., using book value to price and earnings to price).

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.

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.

A 13D filing is generally required for any beneficial owner of more than 5% of any class of registered equity securities, and who are not able to claim an exemption for more limited filings due to an intent to change or influence control of the issuer.

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

As of March 31, 2019, the top ten holdings for the Longleaf Partners Fund: CenturyLink, 8.1%; GE, 7.7%; CK Hutchinson, 7.4%; FedEx, 6.6%; Mattel, 6.3%; CNX Resources, 5.5%; Affiliated Managers Group, 5.0%; LafargeHolcim, 4.9%; Park Hotels, 4.9%; United Technologies, 4.8%. 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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