April 2021

Longleaf Partners International Fund Commentary

1Q21

Longleaf Partners International Fund reported a solid first quarter, returning 6.73% and outpacing the MSCI EAFE Index's 3.48%. Our Hong Kong-listed investments that were the largest absolute and relative detractors in 2020 began delivering on our expectations this year. These Hong Kong businesses benefitted from an improvement in sentiment related to the relaxation of COVID lockdown measures, the beginning of mass vaccination programs, and the rotation from growth to value. Hong Kong is a barbell-ed index with a heavy concentration of new economy digital companies and old economy heavy industry, real estate and finance. Our concentration in real assets, including property, gaming and infrastructure firms CK Hutchison, CK Asset, Great Eagle and Melco International, tend to benefit from inflation, helping returns in the quarter. Our four Hong Kong investments, which began the year trading at a single-digit average multiple of earnings power, were collectively the largest absolute and relative regional performance driver in the quarter.

Average Annual Total Returns (3/31/21) Longleaf Partners International Fund: Since Inception (10/26/98): 7.48%, Ten Year: 4.47%, Five Year: 9.76%, Three Year: 5.54%, One Year: 55.33%. MSCI EAFE Index: Since (10/26/98): 5.44%, Ten Year: 5.52%, Five Year: 8.85%, Three Year: 6.02%, One Year: 44.57%.

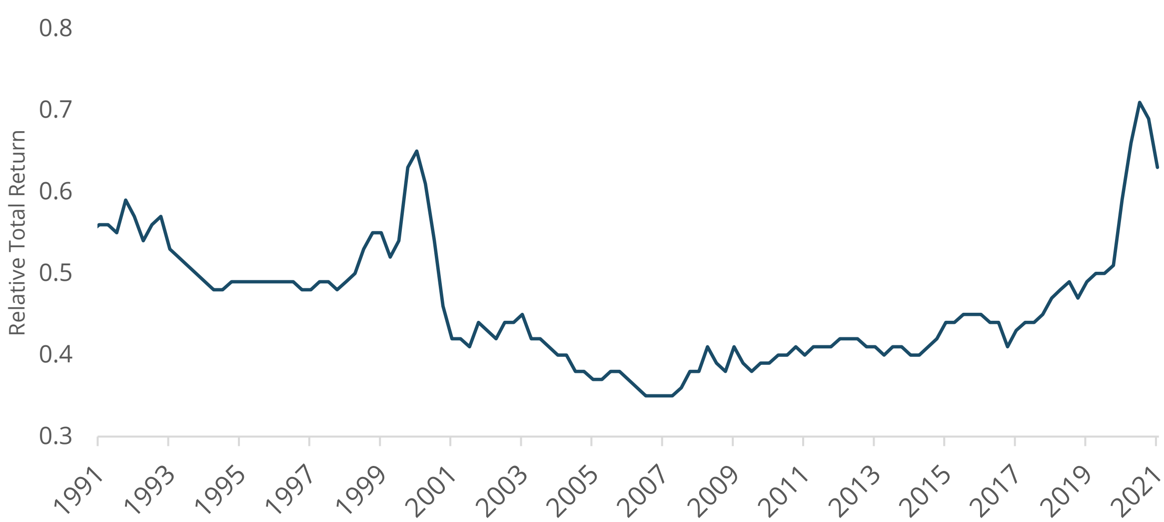
Returns reflect reinvested capital gains and dividends but not the deduction of taxes an investor would pay on distributions or share redemptions. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment 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 southeasternasset.com. ***As reported in the prospectus, dated May 1, 2020, the total expense ratio for the Longleaf Partners International Fund is 1.17% (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.*** *Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 1.15% of average net assets per year.*

The Fund's performance was aided by the much publicized "rotation to value" of the last few months, with value outperforming growth for the second consecutive quarter. The outperformance of value was led by the finance, energy, and real estate sectors - the most beaten down, low multiple areas - substantially outperforming the Index. The Fund outperformed the MSCI EAFE index, despite having no exposure to energy or banks. Our overweight to Real Estate and strong stock-specific performance by Hong Kong Real Estate businesses CK Asset and Great Eagle were strong absolute and relative contributors. We saw strong stock-specific performance across the portfolio with no material detractors in the quarter.

Value has underperformed for over a decade. While value outperforming growth for two quarters may not firmly establish a trend, we have a long way to go for the value versus growth dynamic to revert to historical norms, as shown in the chart below, which bodes well for future returns of value-oriented strategies like ours.

MSCI World Growth Index vs MSCI World Value Index

4/1/1991 to 3/31/2021



FX was an absolute headwind, as the US dollar (USD) strengthened 4% in the quarter, costing the Fund approximately 240 bps of performance. The EAFE Index was impacted by FX translation even more in the period. After giving up some of its strength in 2020 (the DYX Index declined 7% in 2020, providing a tailwind for the Fund), the USD continued its years-long upward march again in the first quarter, driven by a successful vaccine roll out and rising interest rates on the long end of the yield curve rising. However, we believe that over the next five to seven years being short the USD (as you are in a USD fund investing entirely in non-US companies) is a prudent move. Ironically, the increase in longer government bond rates that has supported the USD could be a positive factor in the value rotation away from growth providing some natural hedge.

In our 2020 annual letter, we defined value as "an adequate margin of safety relative to our internal, conservatively calculated intrinsic value for a business." Another aspect of our style of value investing that is often misunderstood is business quality. A low multiples-based style of investing, or one that was shaped from the early, "cigar butt" years, may reflexively associate value with low quality. We have always disliked the growth/value distinction as classically defined. We believe "growth" today is more accurately defined as "high multiple reflecting an uncertain future and wide range of potential intrinsic values," whereas we look to own companies with a "generally lower multiple in industries where intrinsic value is reasonably estimable." Our long-term, bottom-up, fundamentals-driven approach allows us to look through short-term complexity and/or uncertainty for long-term opportunity.

The portfolio currently is invested in multiple companies that we rate in the very top category of quality. An example that we have not discussed in detail is Richemont, the luxury company whose underlying holdings include irreplaceable jewelry brands Cartier and Van Cleef & Arpels. Richemont is a great example of how a value-conscious approach demanding a margin of safety can lead to investments in top-quality companies. We have followed Richemont for years and long admired the track record of founder, CEO and owner-operator, Johan Rupert. Our work accelerated in late 2018-2019 as share price declined on the back of 1) a 2018-19 write off watch and jewelry inventory in the face of short-term concerns over China gross domestic product growth, the China luxury crack down and Hong Kong unrest, which resulted in consolidation of a one-time €500 million cost; 2) an investment in online platform Yoox-Net-a-Porter (YNAP), which resulted in consolidating €200 million of YNAP losses in 2019. To a casual observer, the shares appeared to trade on a price-to-earnings ratio (P/E) in the low 20x range, more or less in line with peers. Implicitly YNAP was being capitalized at a negative number of several billion, while peers were being bought and valued in the public markets at multiples of revenue. Adjusting for the YNAP potential and the exceptional charges resulted in a 30-40% discount to underlying value before even taking into account the significant long-term upside of the core brands. Simply adjusting for the one-time write offs and YNAP losses allowed us to invest in a collection of some of the best businesses in the world for less than 15x their adjusted earnings power and a significant margin of safety relative to underlying value. We initiated the position in 2019 and added to our holding in March 2020, as the share price sold off in the early days of COVID panic. While Richemont has been a solid performer in the last six months (and has benefitted from the Hong Kong rebound, given a large portion of its underlying sales come from Asia), we believe the company has significant upside from today's share price.

In our view, similar high-quality, financially strong businesses are well represented in the portfolio. We expect to see continued organic growth in these businesses, with management teams that are making sound strategic moves to grow value and to get those values recognized.

Contributors/Detractors

(Q1 Investment return; Q1 Fund contribution)

Fairfax Financial (31%, 1.51%), the insurance and investment conglomerate, was the top contributor in the quarter. The COVID pandemic has had a dramatic impact on the insurance industry. Pricing trends had already turned positive in 2019, yet the losses and uncertainty from a global pandemic pushed the positive pricing trend, a "hard market" in insurance industry speak, to another level. As a result, sentiment toward Fairfax continued to improve as fourth quarter results demonstrated profitable underwriting with a 95.5% combined ratio, and premiums written increased 16% with significant contributions from increased pricing, as the insurance market continues to harden. Fairfax also invests a significant portion of its investments in equity securities with a value orientation. As the overall stock market and value stocks appreciated strongly over the last five to six months, Fairfax's equity portfolio was a beneficiary. The company increased its book value per share 8% in 4Q, and we expect to see continued growth next quarter. With interest rates beginning to increase, Fairfax is also primed to reinvest in higher yielding debt. The company currently holds a significant portion of its fixed income portfolio in short-term instruments, putting the company in an opportunistic position to capitalize on higher rates. The stock still trades low on book value and normalized earnings multiples. CEO Prem Watsa repurchased over 5% of Fairfax shares through swaps to preserve capital for additional underwriting and also ended the costly market hedges that had stunted Fairfax's value growth over the last several years. The attractive price environment looks likely to continue, making this one of the best times in years for allocating capital into underwriting. Along with Fairfax, about 40% of our investment in EXOR is its wholly controlled reinsurance company, PartnerRe. We believe EXOR is also well placed to benefit from these trends, while also evaluating other opportunities in the insurance space.

Glanbia, (19%, 0.94%) the Irish-listed global nutrition group, was also a top performer. Coming into 2021, Glanbia was firmly in our "coiled spring" group of investments. The share price began its initial uncoiling with double-digit returns in the quarter. The valuation mismatch between the three pieces of Glanbia - Global Performance Nutrition (GPN), Nutritional Solutions (NS) and the Dairy and Cheese Joint Ventures - has been extraordinary versus any peer. We built our position over the course of 2020, as operational missteps combined with pandemic impact to create a steep discount versus the underlying business value. We applaud the moves taken by management over the last six months to help rectify these issues. The board of Glanbia has already been greatly improved by the appointment of the first independent Chairman in company history in Donard Gaynor. Mr. Gaynor is providing valuable oversight and leadership, which is translating into positive improvement in company operations. CFO Mark Garvey led the effort to gain approval from the Irish regulator and shareholders for the first share buyback program in company history. Glanbia has been actively repurchasing discounted shares, while maintaining its healthy dividend and strong balance sheet. Despite positive initial steps by the company and solid share price performance, we believe there is significant potential to unlock additional value at Glanbia. The GPN business is "COVID re-opening" leveraged, as gyms and specialty channels re-open and as consumers emerge from lock down (often with some extra pandemic pounds to shed) going into the summer and wedding season, when Glanbia's healthy eating products are most in demand. The shares remain undervalued with significant earnings growth potential and, ultimately, we believe various strategic options.

Baidu (3%, 0.70%), the dominant artificial intelligence (AI) company in China, was another top contributor for the quarter. Baidu reported fourth quarter results ahead of the market's expectation. The advertising business saw gradual recovery compared to the first half of the year. A key area of outperformance was the non-advertising revenue, which grew 52%y year-over-year (YoY) and now comprises 18% of Baidu Core. The total addressable market value of Baidu's non-advertising business (ex-autonomous driving) is 10x the size of online advertising, and the expected compound annual growth rate (CAGR) to 2025 for non-advertising is three times faster than that of online marketing. The recent YY Live acquisition should help to further boost the non-advertising mix. Baidu's cloud business grew 67% YoY in the quarter with an annualized run rate of US$2 billion. Baidu also made progress in Apollo, the company's autonomous driving platform. Apollo has been granted the first driverless testing permit and received the first qualifications for commercialized autonomous driving operations in China. Baidu has set up an EV joint venture with automotive maker Geely, which could accelerate Apollo's adoption in the industry. In March, Baidu completed a secondary listing in Hong Kong, hedging any potential risks from a forced delisting in the US. The significant investment and market leadership in Chinese autonomous vehicles and AI are material underappreciated sources of value for the company. Baidu issued 10-year bonds at 2.375% last October, which implies a cash flow multiple of 42x. Baidu currently trades at 21x earnings, but excluding cash, listed securities, and investments, and assigning zero value for their loss-making Cloud and A.I. businesses, Baidu trades at 13.4x free cash flow (FCF), equivalent to a FCF yield of 7.5%. In December, the company upsized its buyback program from $3 billion to $4.5 billion to take advantage of its severe undervaluation.

In one of the more dramatic price moves we have seen this year, Baidu's share price spiked by 57% in the first seven weeks through late-February, after adding 71% in 2020. Taking advantage of this February strength, we cut the Baidu position in half. However, towards the end of the quarter, Baidu's price plummeted as a result of forced liquidation sale of Archegos Capital Management's substantial holdings in Baidu by their lenders. On March 26th, banks liquidated their margin collateral in Baidu stock through a series of block trade transactions. A massive $23.7 billion and $12 billion worth of Baidu traded on March 26th and 29th. This huge margin call is completely unrelated to Baidu's fundamentals and our investment thesis.

CK Hutchison (14%, 0.62%), a conglomerate of telecommunications, health & beauty, infrastructure, global ports and energy, was also a positive contributor for the quarter. CK Hutchison's operations across the globe were unavoidably impacted by COVID in 2020. Full year revenues were down 8% YoY and net profits were down 27% YoY. However, compared to the first half, there was a strong recovery in the second half of 2020. Retail divisions, helped by its Online plus Offline initiatives, delivered EBITDA growth of 12% YoY in the second half, as compared to an EBITDA decline of 43% in the first half. Telecom operations have also achieved a narrowing decline in EBITDA in the second half, despite the drop of roaming fees in 2020. The massive value-accretive tower sale, first announced in November 2020, is progressing according to plan. Close to 30% of the total deal proceeds have already been received, and the rest of the deal is expected to close in 2021. The merger between Husky and Cenovus Energy was completed in January, and CK Hutchison now owns around 17% of the combined company, which has a larger scale, lower production cost and more promising outlook. Although CK Hutchison's profits for 2020 were lower, the underlying FCF was up 29% YoY, primarily helped by the working capital improvement. Gearing went down from 25% in the middle of 2020 to 22% at the year end. We were encouraged to see the on-market share buyback right after the earnings release and expect more repurchase activities in 2021.

Portfolio Activity

During the quarter we exited our small remaining position in MinebeaMitsumi, the Japanese manufacturer of high precision equipment and components, at a small gain but with a disappointing opportunity cost over the full course of our investment. While we still admire its market-leading small ball bearings business, we were ultimately disappointed by the relatively low value growth and, as a result, flat share price performance. We have re-deployed capital into other more attractive opportunities. We also trimmed our investment in Becle further after strong price performance in the prior quarter, in addition to selling half our position in Baidu in February, as discussed above.

We initiated a new position in a Chinese company that we have previously owned indirectly through a holding company. Headlines and near-term issues finally provided the opportunity to buy it directly at a material discount. The company remains undisclosed, as we hope to fill out the position. We opportunistically added to our investments in Melco International, Glanbia and Gruma. Cash is temporarily higher than the low-single digits average of the last few years, as a result of positive investor inflows in the final week of March. The 11% cash at quarter-end is a point-in-time snapshot, and we are actively putting this capital to work.

Outlook

We believe the portfolio is well positioned to generate strong returns with a price-to-value ratio (P/V) below historic averages in the high 60s% and an attractive on-deck list of investment opportunities around the world. Multiple companies from the United Kingdom have jumped to the top of our watch list, in the wake of the completion of Brexit and ongoing COVID uncertainty. The journey back to pre-COVID conditions is likely to be uneven globally, producing winners and losers, as determined by the health of corporate balance sheets, the extent of accommodative policy measures, vaccine access and policy, and the different pace of re-opening of economies. We expect China to drive economic growth in Asia (and the world), and we have added opportunistically to companies that we expect to benefit from Chinese consumption growth at attractive valuations. The historically unprecedented run of US growth companies outperforming may be at an end. We believe our portfolio of undervalued, high-quality, Non-US businesses will continue to outperform, narrowing the historic dispersion between value and growth.

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 southeasternasset.com/account-resources 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.

The MSCI World Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 developed markets countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

The MSCI World Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 developed markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

The US Dollar Index (DYX Index) is used to measure the value of the dollar against a basket of six world currencies - Euro, Swiss Franc, Japanese Yen, Canadian dollar, British pound, and Swedish Krona.

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.

"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.

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.

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

Price / Earnings (P/E) is the ratio of a company's share price compared to its earnings per share.

As of March 31, 2021, the top ten holdings for the Longleaf Partners International Fund: EXOR, 8.7%; Melco International, 6.1%; Prosus, 5.6%; Glanbia, 5.5%; Fairfax Financial, 5.4%; Domino's Pizza Group (UK), 5.1%; CK Hutchison, 4.8%; Accor, 4.8%; GRUMA, 4.7%; and Richemont, 4.6%. 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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