April 2021

Longleaf Partners Fund Commentary

1Q21

Longleaf Partners Fund added 18.22% in the first quarter, nearly tripling the S&P 500's 6.18% return. Every company was positive in the quarter, with last year's largest COVID laggards rebounding to help drive strong absolute and relative results. The Fund's average 17% cash position was the only meaningful relative drag on returns, with stock selection (and strong stock-specific performance) within the Communications Services, Consumer Discretionary and Financials sectors driving outperformance. We did not own the banks and lower-quality companies that largely drove the large-cap value performance rally.

Since we are bottom-up business appraisers and long-term business owners, the most important driver of our long-term returns will always be stock selection. In a first quarter that saw a lot of macro focus on interest rates and retail stock mania, we saw strong stock-specific returns across the portfolio with no significant detractors. Lumen outperformed telecom peers as fears about its near-term cash flow recede with its steady business mix improvement, yet it still trades at less than half of its private market value. CNX performed well on its way to $2/share of relatively low risk free cash flow (FCF), and the market has still yet to recognize how much more of its earnings

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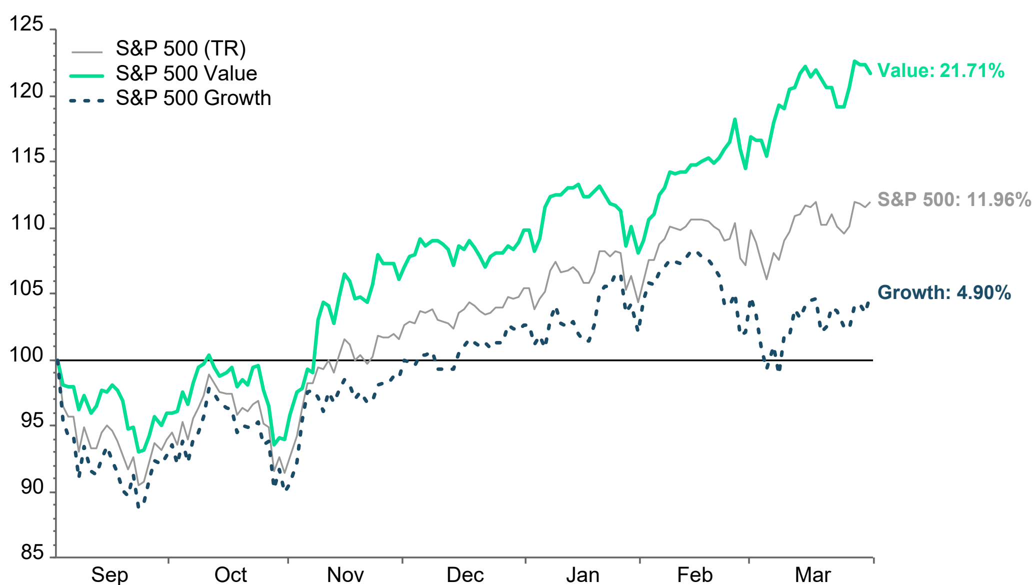
Average Annual Total Returns for the Longleaf Partners Fund (3/31/21): Since Inception (4/8/87): 10.19%, Ten Year: 7.23%, Five Year: 10.46%, One Year: 83.70%. Average Annual Total Returns for the S&P 500 (3/31/21): Since Inception (4/8/87): 10.40%, Ten Year: 13.91%, Five Year: 16.29%, One Year: 56.35%.

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. The prospectus expense ratio before waivers is 1.00%. Effective August 12, 2019, Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.79% of average net assets per year. This agreement is in effect through at least April 30, 2021 and may not be terminated before that date without Board approval.

before interest, taxes, depreciation and amortization (EBITDA) turns into FCF than peers. Mattel has a path to $1.50/share of FCF in less than three years, before finally monetizing its trove of intellectual property (IP). CK Hutchison is turning into a more focused, higher-quality company and started repurchasing shares this quarter after the sale of their cell towers business began to close in stages. Newer holdings like MGM Resorts and Douglas Emmett have been quick contributors and we believe are set up well for future value growth.

We have written about value being out of favor and underperforming relative to growth extensively over the last decade. Last year, the relative gap between the two strategies reached historic levels, with value suffering its worst performance run in at least two centuries, as we wrote about last December in a paper titled Why We Believe Value Will Work Again (WWB). We wrote then that it was early days but that "the market might already be turning towards value." The chart below shows that value's relative strong outperformance has continued in the first quarter.



While we believe that we are just at the beginning of a long-term rebound of fundamentals mattering again, we understand if some might ask: 1) if the "shift to value" has already played out or is yet another head fake; and 2) if our higher-than-

average cash is evidence that the easy money has been made or we are not participating enough in this market rally. On 1), the relative multiple math for our portfolio vs. the market from the WWB piece still holds, as shown in the chart below, even after this quarter's strong performance.

Implied Returns Based on Various P/E Assumptions

	2022 P/E		P/E Change	Performance from P/E Change
	Current	Assumption		
S&P 500	20.35	16.70	(3.6)	-18%
S&P 500 Growth	26.39	20.00	(6.4)	-24%
S&P 500 Value	16.41	14.29	(2.1)	-13%
Longleaf Partners Fund	12.54	14.29	+1.7	+14%

Source: FactSet. Actual investment results and performance are not guaranteed

Our values and free cash flow per share estimates have grown. Despite this, there are days when various parts of the market move in lockstep so that it feels like all the ETF money sloshing from theme to theme is all that matters. We disagree. There is a big difference between our portfolio's actual valuation floor supported by both reasonable discounted cash flow models (DCFs) and strategic/financial buyers willing to pay at or above our appraisals vs. the higher-flying stocks in the market where that real-life bid for the full company doesn't exist. The depths of COVID took away that bidder safety net for a while given the lack of on-the-ground due diligence. As things get back to normal, there have been plenty of deal announcements in the market over the last few months. This bodes well for our portfolio, which has historically benefitted from buyouts.

On the other hand, the wild IPO and SPAC speculation that we discussed in our 2Q and 4Q 2020 letters has only intensified. Joining the party, we now have NFTs bringing the 1990s Beanie Baby energy, where falsely perceived scarcity creates thousands and then millions of dollars out of thin air, thus eventually also creating too much supply and sowing the seeds of a downfall. We take comfort knowing this short-term frenzy is a necessary step towards more rationality coming our way sooner rather than later, and we began to see cracks emerge in the SPAC world as the quarter drew to a close. Usually at a market turn, you see the weakest parts of the previous run-up get shaken

out first, and that might already be happening for some SPAC participants. While short-term SPAC valuations are in silly territory, there is a great long-term benefit to so many companies and management teams coming back into the public realm, as it ultimately increases the investable universe of opportunities for long-term investors like us.

On 2), our cash is never a top-down market call, but rather the residual of the bottom-up opportunity set. We would of course prefer to be fully or close-to-fully invested at all times as a result of finding compelling bottom-up investment opportunities, but we remain disciplined in an overvalued market and have proven (with quarters like this one), that we can deliver solid absolute returns with less risk when we have a cash buffer. Our history has shown that our cash can turn into investments quickly. Simply adding to our portfolio holdings that are currently less than 5% would use an additional 5 to 10 percentage points of cash.

Contributors/Detractors

(Q1 Investment return; Q1 Fund contribution)

Lumen (40%, 3.33%), the global fiber company, was the top contributor. While COVID fallout still weighed on fourth quarter results, the company benefitted from positive business mix improvements. Early in the quarter, Lumen appreciated 38% in a few short days amidst the “Game Stop / Reddit” short cover phenomenon. After this short-term bounce, Lumen’s stock price appreciated more steadily over the last six weeks of the quarter with improved results. Many of last year’s worst-case fears have not materialized and the outlook is improving for the core business. We continue to believe that the company has multiple ways within its control to both grow and realize value per share, and we have a 13D filed to allow us to discuss these options with the company. Lumen’s board, which includes Southeastern-nominated Chairman Mike Glenn from FedEx and Director Hal Jones from Graham Holdings, is doing good work to realize Lumen’s hidden value and return the business to FCF/share growth. Despite its appreciation, the stock trades at less than half of our appraisal.

Affiliated Managers Group (46%, 2.68%), the diversified asset management holding company, was also a top contributor. Our appraised value increased nicely, driven by a 10% growth in AUM to $716 billion and a massive share repurchase (22% of shares outstanding annualized) to take advantage of the stock’s depressed FCF multiple. The

market fixated on AMG's net outflows last year, but 95% of flows came from quantitative strategies that only contribute around 3% of AMG's proportionate EBITDA due to their lower average fees and ownership interest. The other 97% of AMG is performing very well, particularly the company's private market strategies, wealth management and specialty fixed income. AMG also added two new opportunistic acquisitions with Boston Common Asset Management and Jackson Square Partners.

CNX Resources (36%, 1.86%), the Appalachian natural gas company, was another top contributor. The company earned $85 million FCF in the fourth quarter and used the profits to pay down debt and repurchase shares at a 7% annualized pace. 2021 and 2022 production is hedged at solid prices, and the company has guided to a growing $1.90 per share FCF coupon in the near term. The stock trades under 8x FCF before adjusting for farther off undeveloped acreage and the company's pipeline infrastructure. CNX is the lowest-cost producer in the region and its PDP decline rate continues to improve, meaning it can maintain or grow future production without spending heavily. Encouragingly, CNX announced meaningful progress in its ESG initiatives in the quarter, including its commitment to transparent reporting through its adoption of Climate-Related Financial Disclosure (TCFD) and the Sustainability Accounting Standards Board (SASB) disclosure standards. We have engaged with CNX leadership on this topic over the last several years and have encouraged them to commit to these leading industry standard disclosure frameworks. Additionally, the company formed a dedicated working group focused on future emissions reduction and approved a performance measure program that ties executive compensation to meeting targeted methane emissions reduction thresholds over a three-year period.

General Electric (GE) (22%, 1.50%), the revitalized Aviation, Healthcare and Power conglomerate, was a top contributor following on its strong 4Q 2020 performance. Fourth-quarter Healthcare results were excellent, with revenues up 6% year-over-year (YoY), operating margins up 3% to 20% and strong FCF conversion. The Power and Renewables segment improved margins due to strength from gas plant services. With flight traffic increasing, Aviation appears likely to begin a multi-year recovery in the second half of this year. GE also swapped its aircraft leasing operations to AerCap for a 46% stake in the combined company, intelligently wrapping up its previously troubled GE Capital financing operations and further decreasing overall leverage. We continue

to be impressed by the turnaround work of CEO Larry Culp, and the stock remains discounted against the quality of the three core business segments.

MGM (21%, 1.44%), the casino and online gaming company, also contributed to the Fund's strong returns. MGM's Las Vegas properties performed particularly well during the fourth quarter, with October marking the best month since pre-COVID February, positive quarterly EBITDA and strong 2021 bookings. MGM's online gaming and sports-betting app, BetMGM, is one of the leaders in US online gaming, with a better market share in the more profitable iGaming than in the higher profile but lower margin sports gaming. MGM has demonstrated high conversion rates of its hotel guests and we believe that, with Barry Diller's help, they will build a competitive long-term advantage with lower customer acquisition costs. MGM's Macau subsidiary, MGM China, also appreciated as the Macau market partially reopened. We believe there is significant additional upside for the Macau business over the medium-to-long term.

Fairfax Financial (FFH) (31%, 1.44%), the insurance and investment conglomerate, was a 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.

CNH Industrial (CNH) (23%, 1.19%), one of the world's largest agriculture machinery manufacturers, was another top contributor. CNH reported strong fourth quarter results, beating the consensus on every metric. The Agricultural Equipment (Ag) business, which represents the majority of our value, posted strong top-line growth of 19% YoY thanks to rising commodity prices, growing trade with China and the replacement of aging machinery fleets. Visibility for the first half of 2021 is strong, given solid Ag order growth across most key end markets, and we expect to see operational turnarounds in CNH's other businesses. The company is also guiding 8-12% industrial sales growth for 2021, which is better than our initial expectation. The most positive surprise for the quarter was the company's strong cash generation. CNH generated approximately $2.4bn FCF in the fourth quarter alone, driven by working capital release leading to a strong net cash position for the industrial segment. Due to the recent stock price appreciation, the price-to-value gap has narrowed, but we continue to have a positive view given a more favorable market outlook, the company's strong execution capability and management's continued commitments to value accretive transactions, including the planned splitting of the business and potentially other strategic asset sales.

Portfolio Activity

In the quarter, we sold DuPont, as its share price went to our appraised value. We have owned DuPont successfully three times now in the last decade and have great respect for CEO Ed Breen, who has delivered on creating value and focusing the company on its core businesses. We continue to view the business and leadership highly and hope to have the opportunity to partner with them again. We trimmed an additional eight holdings, taking advantage of price strength to manage position sizes at companies trading at a higher price-to-value.

We initiated a position in a cash-flow generative healthcare company with a strong balance sheet and aligned board and management team with a history of long-term value creation. It represents a relatively rare opportunity where we can find a compelling company whose value has the right mix of downside protection from

established franchises and hard to quantify upside from a misunderstood pipeline, all at a price that meets our discount criteria.

Our team has been hard at work evaluating new businesses across multiple sectors, including healthcare, consumer products and infrastructure. Our on-deck list remains better than we would expect for a market at this aggregate level, as new companies have moved on, while others have moved off. There are not broad "themes" that are driving our new additions, but rather unique one-offs that come our way as we go down the list day by day. We can see multiple ways to have a similarly productive second quarter and rest of the year on new name generation. We also have several existing holdings closer to buys than sales at today's portfolio weights.

Outlook

We are excited about the specific company opportunities in our portfolio and on our on deck list, but we would also highlight a few additional potential sources for tomorrow's "value stocks," which we are watching closely. While more money into index funds or thematic ETFs can lift all of those boats in the good times, there will inevitably be bad times when all these move down together, leading to some high-quality companies within this group becoming misunderstood, and then we will get a chance to own them. That statement might apply more to some of the higher-flying parts of the market, so we would also point to some of the more boring, consumer product parts of the market with hope. The thirst for perceived safety via low-volatility grew over the last several years in conjunction with lower interest rates / higher multiples, amplified by a one-time COVID bump that helped that group further. We have owned many high-quality consumer goods companies before, but we expect a tougher near-term outlook for these "places to hide." We expect this will eventually translate into more opportunities for long-term value investors like us at better multiples.

The best way we can thank our clients for their long-term partnership is with good absolute returns, so we are glad to start the year off as we have. We do not believe this is a blip. Value has outperformed growth for 75%+ of rolling 10-year periods through recorded history. The data would support that we are more likely than not just getting started after a longer than usual rough period. We also like how our unique portfolio is positioned vs. an average active value manager or ETF. We do not own either extreme of 1) opaque, undifferentiated bank stocks or 2) "compounders" that are great

qualitatively but just are not undervalued and therefore have minimal or no margin of safety. Our carefully selected portfolio has much more room to grow, and our cash holdings will provide a buffer vs. overvalued markets and then turn into our next great qualifiers.

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 https://southeasternasset.com/account-resources. 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. S&P 500 Value Index constituents are drawn from the S&P 500 and are based on three factors: the ratios of book value, earnings, and sales to price. 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.

"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.

An IPO is an initial public offering, referring to the process of offering shares of a private corporation to the public in a new stock issuance.

A SPAC is a special purpose acquisition company.

NFTs are non-fungible tokens. NFTs are cryptographic assets on blockchain with unique identification codes.

Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments.

Climate Related Financial Disclosure (TCFD) is a reference to The Task Force on Climate-Related Financial Disclosures, an organization established with the goal of developing a set of voluntary climate-related financial risk disclosures which can be adopted by companies so that those companies can inform investors and the public about the risks they face related to climate change.

The Sustainability Accounting Standards Board (SASB) is an independent nonprofit organization that sets standards to guide the disclosure of financially material sustainability information by companies to their investors.

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

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.

Discounted cash flow (DCF) is a valuation method used to estimate the attractiveness of an investment opportunity. DCF analysis uses future free cash flow projections and discounts them to arrive at a present value estimate, which is used to evaluate the potential for investment.

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.

As of March 31, 2021, the top ten holdings for the Longleaf Partners Fund: Lumen, 10.0%; Mattel, 6.0%; Affiliated Managers Group, 5.8%; CNH Industrial, 5.4%; CNX Resources, 5.4%; Fairfax Financial, 5.2%; Douglas Emmett, 4.7%; LafargeHolcim, 4.7%; MGM Resorts, 4.6% and CK Hutchison, 4.6%. 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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