

April 2022

Longleaf Partners International Fund Commentary 1Q22

Longleaf/Partners
Funds

Fund Characteristics

P/V Ratio	Mid-50s%
Cash	4.4%
# of Holdings	23

March 31, 2022	Annualized Total Return					
	1Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception*
International Fund	-12.04	-18.32	-2.80	1.86	3.88	6.23
MSCI EAFE	-5.91	1.16	7.78	6.72	6.27	5.26
MSCI EAFE Value	0.33	3.55	5.23	4.18	4.87	4.81

*Inception date 10/26/1998

Longleaf Partners International Fund declined 12.04% in the first quarter, while the MSCI EAFE Index declined 5.91%. In a volatile quarter for markets across the globe, our companies made solid progress across the board, but we saw one of the largest disconnects between price and value per share performance that we have seen for our portfolio in a long time. The Fund saw a continuation of China/Hong Kong exposure weighing on absolute and relative returns, as four unrelated events combined to compound the extreme volatility in March: the Russia-Ukraine War, a COVID resurgence in China, Chinese American Depositary Receipt (ADR) delisting fears and rising inflation fears and ensuing tighter monetary conditions in the US. This quarter,

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 1.20%. The International Fund's expense ratio is subject to a fee waiver to the extent the Fund's normal operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) exceed 1.15% of average net assets per year.

the Fund's European holdings took an equal toll on performance, as European equities were indiscriminately sold amid fears over Russia's invasion of Ukraine. We have no direct exposure to Russia/Ukraine and very minimal look through (low single digits from a value perspective), as these regions have never qualified due to governance and rule of law concerns. The steep stock price declines are completely disconnected from the underlying values of our companies, which have not warranted a corresponding significant decline. We wrote more extensively on our views on the expected impact of the ongoing conflict [here](#). From a sector perspective, we were significantly overweight consumer discretionary (in Asia and Europe), which was the largest MSCI EAFE (Europe, Australia and Far East) Index detractor, and had no direct exposure to Energy, MSCI EAFE Index's largest contributor. The Fund did, however, benefit from having no exposure to information technology, which saw steep declines in the quarter.

We encourage you to watch our [video](#) with Portfolio Managers Ken Siazon, Josh Shores and Staley Cates for a more detailed review of the quarter.

Contribution To Return

Top Five				Bottom Five			
Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (3/31/22)	Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (3/31/22)
CK Hutchison	13	0.45	5.3	Prosus	-35	-1.73	3.6
Fairfax Financial	9	0.23	4.5	Melco International	-25	-1.45	4.1
Jollibee	2	0.04	3.6	LANXESS	-29	-1.29	3.7
Undisclosed	-8	-0.08	1.4	EXOR	-15	-1.17	7.3
Accor	0	-0.08	4.9	Lazard	-20	-0.99	4.5

Holdings are subject to change. Past performance does not guarantee future results.

- CK Hutchison** – Hong Kong-based conglomerate CK Hutchison was the top contributor after reporting a solid full-year result for 2021, with overall revenue up 10% year-over-year (YOY) and EBITDA (earnings before interest, taxes, depreciation and amortization) up 15% YOY. The port division had the strongest recovery, with

profits already above pre-COVID levels, and the positive momentum is holding up in 2022. The retail business bounced back from a low base in 2020, with stores in Western Europe outperforming those in China. In March, CK Hutchison finally obtained conditional approval for the UK tower sale to Cellnex, the largest and last tranche of six tower asset disposal deals first announced in 2020. On completion, the UK telecom tower disposal will bring in €3.7 billion, representing around 15% of the current market cap of CK Hutchison. Management has indicated that a portion of the proceeds will be used for share buyback, which is an excellent, value accretive use of proceeds at the current 7x earnings, 5% dividend yield of CK Hutchison.

- **Prosus** - Tencent, which accounts for 85% of Prosus's appraisal, faced pressures from weak macro and regulatory headwinds in the quarter. High base effects and proactive initiatives to reduce minors' game play temporarily slowed down Tencent's domestic game growth, despite its international game business growing strongly. The regulatory stop on the after-school tutoring sector and reduced ads inventory impacted Tencent's ads businesses. Tencent made solid progress with new initiatives, increasing viewership, user time spent in video accounts and strong user growth in SaaS. Geopolitical risk and rising interest rates have impacted Prosus's global e-commerce portfolio net asset value (NAV). Higher interest rates and tighter liquidity conditions negatively impacted food delivery company Delivery Hero. The company remains confident that its balance sheet can support incremental investments at much better valuations today while maintaining an investment grade rating. Prosus has exposure to Russia through its investment in Avito, which accounts for a low single-digit percentage of NAV but a more meaningful 20% of reported free cash flow (although far less on a look-through basis when including Tencent). We reduced our appraisal by low-single digits to reflect the impact. The NAV discount has widened to record highs despite a sizable \$10 billion buyback in the last 12 months. Bob van Dijk (CEO) and Basil Sgourdos (CFO) personally bought shares, highlighting their confidence in the business.
- **Melco International** - Melco International was a top detractor in the face of renewed COVID lockdowns in Guangdong Province and Shenzhen. Melco held up relatively well operationally among its peer group, reporting stronger than expected fourth-quarter results, thanks to its solid mass operations and tight cost controls. Melco CEO Lawrence Ho shared a cautious outlook on the near-term re-opening prospects given ongoing COVID resurgence in China and its zero-COVID policy.

While the timing of travel resumption remains unclear, we remain confident that the long-term demand outlook for Macau and gaming is solid. Macau will be a big beneficiary of Chinese outbound tourism and will benefit further from China's government development of the Greater Bay Area.

- **Lanxess** – German-listed specialty chemical company Lanxess's cyclical exposure to commodities and industrial inputs weighed heavily on its share price in the quarter. While we invested in this German-listed company because of its ownership of previous Small-Cap Fund winner Chemtura, its exposure to Russian gas drove the stock price in the quarter. This is a still-evolving situation where the European headlines do not relate 100% to the full value of this company. Management has shifted the fundamental profile of the business from a legacy European commodity chemicals business to a much higher quality global specialty chemical company today. CEO Matthias Zachert recently indicated that Lanxess is considering strategic options for its High Performance Materials division, which we think would be a good move.
- **EXOR** –EXOR was punished in the quarter primarily due to its European domicile in the face of top-down fears for the region with Russia's invasion of Ukraine. The conglomerate discount subsequently grew wider, as we tend to see during periods of global uncertainty. The company has negligible exposure to the region, and our appraisal value has not been impacted by these events. EXOR paid a one-off proactive exit tax settlement with the Italian Tax Authorities due to a retroactive application of current Italian tax law to the company's redomicile to the Netherlands in 2016. While painful in the short-term, the effective management of the settlement fully closes the matter going forward. The \$9+ billion sale of EXOR's reinsurer PartnerRe to strategic player Covea is still expected to close in the coming months, with the sizeable check enhancing EXOR's investment firepower in what we consider a more attractive opportunity in Europe.

Portfolio Activity

We took advantage of price volatility to add to three of our most heavily discounted European businesses, including new purchases in 4Q 2021, flatexDEGIRO and Juventus Football Club. Additionally, we reinitiated a position in Alibaba, as the shares became even more heavily discounted amid broad China volatility in the period. We also purchased a new Japanese company that we have owned in our Asia Pacific portfolios previously. The holding remains undisclosed as we continue to build out the position. We completed the sale of Hong Kong real estate company Great Eagle in the quarter. We remain fully invested with approximately 4% cash, and our on-deck list is growing

longer amid market volatility. New investments have a high hurdle to qualify given our conviction in our current holdings and the steep discount of the portfolio, which trades at a Mid-50s% price-to-value ratio.

Outlook

In a challenging period of stock price volatility and global uncertainty – amid fears of a potential world war, ongoing COVID concerns, Chinese regulatory challenges, rising interest rates/growing inflation and the potential for a recession – we were nevertheless pleased with the solid progress made and appraisal stability seen across our portfolio holdings. We believe our companies in Asia and Europe are well positioned to navigate the challenges facing each region today. We own companies that have pricing power that can price through cost increases and grow their profitability as a result. Our companies come from a position of financial strength with aligned, proven management teams that can take proactive steps to manage through challenging market environments.

See following page for important disclosures.

Data and discussion as of March 31, 2022

Before investing in any Lingleaf 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 Lingleaf 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.

PV ("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.

Net Asset Value (NAV) is a statement of the value of a company's assets minus the value of its liabilities.

Dividend yield is the stock's dividend as a percentage of the stock price.

As of March 31, 2022, the top ten holdings for the Lingleaf Partners International Fund: EXOR, 7.3%; CK Hutchison, 5.3%; Glanbia, 5.3%; GRUMA, 4.9%; Accor, 4.9%; Applus Services, 4.8%; Millicom, 4.7%; Fairfax Financial, 4.5%; Domino's Pizza Group (UK), 4.5% and Lazard, 4.5%. 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.

*Funds distributed by ALPS Distributors, Inc.
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