April 2023

Longleaf Partners Small-Cap Fund Commentary

1Q23

Longleaf Partners Funds

Fund Characteristics

P/V Ratio	Low-60s%
Cash	9.4%
# of Holdings	19

				Annualized Total Return		
	1Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)
Small-Cap Fund	4.24	-16.49	15.00	1.95	5.82	9.52
Russell 2000	2.74	-11.61	17.51	4.71	8.04	8.96
Russell 2000 Value	-0.66	-12.96	21.01	4.55	7.22	9.74

*Inception date 2/21/1989

Longleaf Partners Small-Cap Fund added 4.24% in the first quarter, ahead of the Russell 2000, which returned 2.74%. Two large factors dominated markets in the quarter – 1) the banking crisis in the wake of Silicon Valley Bank's (SVB) collapse and 2) a near-term rebound in tech/growth businesses that had begun to fall from grace in 2022. The Small-Cap Fund portfolio has no direct exposure to banks and is relatively underweight Information Technology stocks, and our return drivers varied meaningfully from the Index.

As of March 9th (the day before the collapse of SVB), Finance was 27% of the Russell 2000 Value, while banks as a subset comprised 17%. We have historically had difficulty owning banks given the high leverage and lack of transparency that make these businesses difficult to understand and value over the long term. Today, there are undoubtably good banks being unfairly thrown out, as well as yield-chasing banks that are likely to be exposed. We suspect that this market dislocation will ultimately create compelling investment opportunities, and we will continue to stick to our discipline as we assess them. We have also had limited exposure to some of the heavy growth technology stocks that drove markets over the last decade because we felt that the valuations were too rich. This was a large relative drag on the Fund's performance until 2022, when we saw many (but not all) technology stocks decline precipitously. In the first quarter, we saw a revival of tech companies driving markets. We believe this is likely a short-term bounce as some of the larger market favorites are still overvalued in our view.

Some of our largest performance drivers in the quarter came from some of the prior years' largest detractors that were overly punished. We have been pleased to see solid performance at these businesses but believe that there is significant additional upside from here. Our appraisal values continued to grow nicely across most of our businesses.

We encourage you to watch our video with Portfolio Managers Ross Glotzbach and Staley Cates for a more detailed review of the quarter.

Contribution To Return

1Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (3/31/23)
Oscar Health	169	4.93	6.2
Hyatt	24	1.03	4.9
GRUMA	11	0.69	6.3
Eastman Kodak	11	0.61	6.3
Masonite	13	0.35	3.2

1Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)	Portfolio Weight (%) (3/31/23)
Lumen	-49	-2.61	2.6
Anywhere	-17	-0.61	3.1
Westrock Coffee	-8	-0.46	6.1
Empire State Realty	-3	-0.28	4.7
CNX Resources	-5	-0.23	6.3

- Oscar Health – Health insurance and software platform Oscar Health was the top contributor in the quarter after the stock returned over 150% in the period. While tech businesses and other speculative stocks saw a rally in the first quarter, Oscar's stock price move was a direct result of announcing a new CEO, Mark Bertolini. He has a fantastic track record as the long-time CEO of Aetna, which he shifted to be a more consumer-oriented plan and ultimately sold to CVS for $69 billion. Bertolini has been a strategic advisor to Oscar for the last year and knows the company well. He noted on the call announcing his appointment that he "believes in the mission" and the ability to "create significant shareholder value…as either a health plan or as a service to others." His first priority is getting the health plan segment to positive adjusted EBITDA this year. The company reiterated at the end of the quarter that it is on track to achieve this metric. Not only does Bertolini taking the job provide validation of the business, but his compensation package uniquely aligns him in creating shareholder value. It consists of 10.3 million restricted shares, three-quarters of which only vest at stock price hurdles of $11, $16 and $39. Even after the large increase in the quarter, the stock trades at nearly half of the $11 threshold where Bertolini starts really getting paid.

- Hyatt – Global hotel franchisor and owner Hyatt was also a top performer in the quarter, continuing its positive performance from 2022. While we are likely in the later stages of the hotel cycle that may be facing more economic worries from here, Hyatt uniquely skews towards group properties that still have room to rebound further post-COVID. It is also much less skewed to more volatile owned property cash flow than its previous years as a public company. Hyatt benefited in the quarter from leaked news that the company is likely to sell more assets and to use proceeds to buy back shares and build balance sheet strength.

- Lumen – Global fiber company Lumen was the top detractor in the quarter on the back of disappointing guidance. Revenues remained weak, and the company surprised negatively by cutting guidance by an additional $500 million in the quarter. New CEO Kate Johnson reiterated the potential for strong enterprise sales improvement, but this will require further selling, general, and administrative (SG&A) investment. Additionally, the company is spending to accelerate the automation of its middle market business, while also running off its declining legacy business. We still believe the key to unlocking the price-to-value gap is a strategic sale or separation of the consumer business, but the current financial pressure likely extends that timeline. To the positive, Lumen retired over $600 million debt in an exchange of new senior debt to retire existing unsecured debt. We reduced our Lumen position in the quarter and remain actively engaged with management and the board.

Portfolio Activity

In the quarter, we initiated a new purchase, increased two attractively discounted existing holdings and trimmed 12 positions. In our 4Q22 letter, we discussed some portfolio management process improvements, based on lessons learned, that we put in place to limit overweight investments in the portfolio and to be more cautious of leverage and holdings companies. We believe these changes, coupled with strong idea generation by the research team, have already led to a better portfolio. The Small-Cap Fund ended the quarter with a 9% cash balance, but today it is already lower. We used proceeds from the trims in the quarter (due to a combination of positive performance and rebalancing to the new rules limiting position sizes to 6.5%) to buy a new company that we have been patiently watching for a long time. This business offers one of the finest sets of consumer brands we have found in the small-cap world in a long time, and it remains undisclosed as we are building out the position. We also initiated another position in early April that is a high-quality, defensive business we have successfully owned before.

Outlook

We were pleased to see strong performance across the majority of our businesses in a quarter that was not favorable to the value investing style and following a challenging year of global uncertainty in 2022. While many top-down macro questions and pressures remain, we continue to see solid progress and value growth across our businesses. Our management teams are focused on using financial strength to their advantage to get the underlying value of their businesses recognized. The Russell 2000 and its value part in particular have already moved in and out of favor to start the year, and we like the opportunity set that is emerging. We are taking advantage of price dislocation to invest in high-quality small-cap businesses and are highly convicted in the compelling upside opportunity embedded in the portfolio today. We believe we are in the beginning stages of longer-term outperformance.

See below 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 Small-Cap 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. Smaller company stocks may be more volatile with less financial resources than those of larger companies.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index. The Russell 2000 Value index is drawn from the constituents of the Russell 2000 based on book-to-price (B/P) ratio. An index cannot be invested in directly.

EBITDA is a company's earnings before interest, taxes, depreciation and amortization.

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.

As of March 31, 2023, the top ten holdings for the Longleaf Partners Small-Cap Fund: GRUMA, 6.3%; CNX Resources, 6.3%; Eastman Kodak, 6.3%; Liberty Braves Group, 6.2%; Oscar, 6.2%; Mattel, 6.2%; Westrock Coffee, 6.1%; White Mountains, 6%; LANXESS, 5.8% and Hyatt, 4.9%. 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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LLP001413
Expires 7/30/2023