April 2024

# Longleaf Partners Small-Cap Fund Commentary

# 1Q24

Longleaf Partners Funds

## Fund Characteristics

| | |
|---|---|
| P/V Ratio | Mid-60s% |
| Cash | 16.5% |
| # of Holdings | 17 |

All data as of March 31, 2024

| | | | Annualized Total Return | | | |
|---|---|---|---|---|---|---|
| | 1Q (%) | 1 Year (%) | 3 Year (%) | 5 Year (%) | 10 Year (%) | Since Inception (%) |
| Small-Cap Fund | 6.85 | 23.16 | 1.03 | 5.37 | 5.88 | 9.88 |
| Russell 2000 | 5.18 | 19.71 | -0.10 | 8.10 | 7.57 | 9.24 |
| Russell 2000 Value | 2.90 | 18.75 | 2.21 | 8.16 | 6.87 | 9.99 |

*Inception date 2/21/1989.

Longleaf Partners Small-Cap Fund returned 6.85% in the first quarter, ahead of our benchmark index and absolute annual return goal of inflation plus 10%. Strong stock performance across many of our portfolio holdings drove solid returns in a quarter when value investing faced headwinds relative to growth strategies.

While small-cap indices underperformed relative to large cap (which were once again driven by a few mega-cap growth companies), we are pleased with the results of our carefully constructed portfolio that looks very little like any index. We remain focused on what is within our control. Our portfolio companies are growing their value per

*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 1.01%. Southeastern has contractually committed to limit operating expenses (excluding interest, taxes, brokerage commissions and extraordinary expenses) to 0.95% of average net assets per year. This agreement is in effect through at least April 30, 2025 and may not be terminated before that date without Board approval.*

share in aggregate while our management partners continue to take action to realize value via discounted share buybacks and other intelligent actions.

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 (%) (3/31/24) |
|---|---|---|---|
| Oscar Health | 64 | 3.62 | 5.3 |
| CNX Resources | 18 | 1.13 | 6.3 |
| White Mountains | 19 | 0.97 | 4.8 |
| Park Hotels & Resorts | 16 | 0.72 | 4.9 |
| Hyatt | 22 | 0.70 | 2.7 |

### 1Q Bottom Five

| Company Name | Total Return (%) | Contribution to Return (%) | Portfolio Weight (%) (3/31/24) |
|---|---|---|---|
| Anywhere Real Estate | -24 | -1.33 | 4.1 |
| Boston Beer Company | -12 | -0.52 | 3.7 |
| Ingles | -11 | -0.50 | 3.9 |
| Douglas Emmett | -3 | -0.07 | 2.1 |
| Atlanta Braves Holdings | -1 | -0.06 | 4.4 |

- Oscar - health insurance and software platform Oscar Health was the top contributor in the quarter, after the stock returned over 60%. In January, CEO Mark Bertolini spoke at conferences highlighting 30%+ projected revenue gains for 2024 along with additional margin opportunity. Later in the quarter, Oscar reported year-end results that beat expectations again. In addition to strong growth in members and cash flow, the company's technology platform is turning the corner, becoming a contributor rather than the non-earning asset it was when we first invested. We trimmed the position on the back of strong performance in the quarter, but Oscar remains one of our top holdings.

- CNX Resources - natural gas company CNX Resources was a top contributor in the quarter. It's been a tough natural gas price environment over the last several months, but CNX came into this year more hedged than peers and with a strong balance sheet that has funded continued share repurchase at a double-digit annualized pace. It is also executing well operationally. Our partners CEO Nick Deluliis and Chairman Will Thorndike continue focusing on growing long term free cash flow (FCF) and value per share. The quarter saw EQT, a larger competitor in the Appalachian basin, decide to recombine its pipeline business with its upstream business. CNX had already done this in 2020 at what we believe was a better time and a better price, so it was nice to see additional validation of this decision. CNX remains very discounted and one of our stronger value growers over the last few years, which is why we added to our position earlier in the quarter when it was trading at a larger discount.

- White Mountains Insurance Group – insurance conglomerate White Mountains was another strong contributor for the quarter. While there was not a lot of news in the quarter, the market is starting to recognize the strategic steps the company has made since we invested in late 2021. White Mountains remains a solid, defensively positioned company with a net cash balance sheet. We are excited about the recent acquisition of Bamboo, a company that focuses on homeowners' insurance in the currently dislocated market of California. We believe this is yet another great opportunistic and contrarian move by CEO Manning Rountree and team. We released a podcast with Manning in January that you can listen to for a broader overview of White Mountains. We trimmed our position after strong performance in the quarter.

- Anywhere Real Estate – real estate brokerage franchisor Anywhere was the top detractor in the quarter. The biggest headline for the industry was the settlement by the National Association of Realtors regarding how realtor buyer commissions are paid and structured. Anywhere had already settled its part of this litigation last year and does not owe a portion of the big headline numbers reported recently. The bigger questions for us are how these changes will impact long-term commission rates and when the overall housing market will normalize. We remain confident that in any version of a normal environment, the company will be trading at a single-digit multiple of eventually growing FCF. That said, Anywhere has struggled with a lack of value growth recently even though CEO Ryan Schneider has taken steps within his power to position the company to weather this tough environment.

## Portfolio Activity

We initiated one new position in the quarter and added to CNX as discussed above. We exited two holdings while trimming several strong performers. The new position is a company that we have successfully owned before. We exited both Knife River and Masonite in the quarter. We exited Masonite after losing faith in management after an ill-advised acquisition attempt. It was cold comfort when our appraisal for the company was ultimately proven correct after a surprising bid emerged for the company later in the quarter. Knife River was a very high IRR investment that we held for less than a year after it was spun out of MDU Resources. Management delivered solid results versus initially low expectations and the market quickly appreciated the quality of this aggregates-led business, which we sold as price exceeded our appraisal.

**Outlook**

While our cash ended the quarter at a higher-than-usual level of 17%, our on-deck list remains healthy and our price to value ratio is still in the mid-60s. The research team has been hard at work, and we have done significant work on several companies that can hopefully get into the portfolio soon. We view cash as a temporary position in the portfolio when we don't have enough qualifying ideas. We would always rather have that next great, high-quality 60 cent dollar than holding cash, but sticking to our investment discipline at a time when the market is fully priced, like today, remains prudent. We thank our long-time clients for their continued partnership and look forward to talking more about the portfolio as the year progresses.

*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://connect.rightprospectus.com/Longleaf/TADF/543069207/SP. 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 3000 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.*

*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.*

*Internal rate of return (IRR) is the interest rate at which the net present value of all the cash flows from an investment equal zero.*

*"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.*

*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, 2024, the top ten holdings for the Longleaf Partners Small-Cap Fund: Eastman Kodak, 9.3%; CNX Resources, 6.3%; Westrock Coffee, 6.2; Graham Holdings, 6.0%; Mattel, 5.8%; GRUMA, 5.7%; Oscar Health, 5.3%; Park Hotels & Resorts, 4.9%; White Mountains, 4.8% and Undisclosed, 4.7%. 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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