Longleaf Partners Funds | Advised by Southeastern Asset Management, Inc.®

For Professional Investors Only

Second Quarter 2014 Commentary

Longleaf Partners Global UCITS Fund gained 3.4% in the second quarter, underperforming the MSCI World Index's 4.9%. For the first half, the Fund returned 6.4%, outpacing the Index's 6.2% return. The Fund's trailing one-year return remains well ahead of the Index, as well as our absolute return goal of inflation plus 10%.

Cumulative Returns at 30 June 2014

Global Fund	Since Inception	Three Year	One Year	YTD	2Q
Class I - USD (Inception 04/01/10)	**53.00%**	**27.29%**	**31.90%**	**6.40%**	**3.38%**
MSCI World USD	61.57	39.77	24.05	6.18	4.86
Class I - EURO (Inception 20/05/10)	**49.13**	**34.54**	**25.31**	**6.91**	**4.01**
MSCI World Euro	61.24	48.01	17.77	6.86	5.55
Class I - GBP (Inception 13/11/13)	**4.69**	**na**	**na**	**2.88**	**0.79**
MSCI World GBP	3.16	na	na	2.85	2.24

Cheung Kong, the Hong Kong based conglomerate with businesses around the world, returned 15% in the second quarter, pushing the YTD return to 21%. Over the first half of 2014, management made value-enhancing asset sales across multiple business lines. In the first quarter, Cheung Kong Infrastructure spun off and listed Hong Kong Electric. Additionally, 50% owned affiliate Hutchison Whampoa sold 25% of A.S. Watson Group, the world's largest health and beauty retailer. In the second quarter, the company paid a HK$7 special dividend with the proceeds of the Watson sale. Sales of residential property in Hong Kong accelerated after some relaxation in stamp duty regulations. With high land valuations, our partners at Cheung Kong exercised the discipline we have come to expect - not acquiring a single piece of land in Hong Kong or China for over a year.

Fiber and networking company Level 3 Communications announced a deal to acquire tw telecom and returned 12% in the quarter and 32% for the first half. With the deal, Level 3 gets increased tax benefits for its historic NOLs (net operating losses) due to the company's increased equity capitalization. The transaction also affords an identified $200 million in synergies, roughly half of which come from the straightforward traffic switch onto Level 3's backbone. The deal is expected to close in the fourth quarter. Beyond the merger, in his first year as CEO, Jeff Storey and his team have delivered solid revenue growth, margin improvements, and higher cash flow guidance.

Chesapeake, the U.S. oil and gas exploration and production company, rose 22% in the quarter and was up 15% YTD. During the quarter, the company announced better-than-expected production and realizations and raised yearly guidance on both of these metrics. Management continued to execute on the capital efficiency strategy, highlighted by the spin-off at quarter-end of its oilfield services business into a publicly traded company called Seventy Seven Energy. The spin-off eliminated approximately $1.5 billion of net debt from Chesapeake's balance sheet. Divestitures of noncore acreage in Oklahoma, Texas, and Pennsylvania were also completed. Our CEO partner, Doug Lawler, is positioning the company to focus on its strong assets in the Eagle Ford, Marcellus and Utica plays, while growing production profitably and keeping capital expenditure within cash flow.

U.S. cement producer Texas Industries (TXI), gained 34% YTD. Martin Marietta's all-stock deal to acquire TXI closed at the end of the second quarter, and we subsequently sold the position at our appraisal. In spite of the lingering effects of the financial crisis and worst U.S. recession in our lifetime, since the Global Fund's inception we made 156% in TXI, a high quality but cyclical business. Many things that helped make this investment successful are applicable to Southeastern's approach more broadly.

- "Recycled" names tend to do well. Southeastern owned TXI previously from 2001-2005, and more than doubled our money. Because we knew the company, industry, and management well, our case had a strong foundation when we bought the stock again.

- A five year time horizon can give clarity and conviction through short-term uncertainty. The slow economic recovery after the financial crisis made the timing of a rebound in U.S. construction and infrastructure uncertain through 2011. Given the healthier Texas economy and TXI's new plant coming on line, we felt certain that over five years volumes and prices would be higher, even though we were not sure of the path. Sentiment turned quickly, and in 2012 and 2013 TXI gained 66% and 35%, respectively.

- Overweighting positions at opportune times can pay off handsomely. From the Fund's launch in 2010 through 2011, we continued to increase our holding in TXI as the Fund grew, taking the holding to a 7.1% position at one point. We had high conviction because TXI had 1) competitive advantages including its location in a state that was rebounding, new capacity, and a solid balance sheet, 2) management and a board committed to getting shareholder value recognized, 3) a major shareholder in the form of 23% owner Nassef Sawiris with industry expertise, and 4) a price that was a fraction of both the company's replacement value and comparable sales ($/ton) of other U.S. cement plants.

- Our size can be an advantage. Prior to the Global Fund's inception, we owned 9% of TXI in 2009. To help protect against potential buyers who might try to steal TXI from shareholders at a deep discount, we successfully suggested one board member whom we knew would be protective of shareholders. We did the same thing with additional directors after we had increased our position to over 20% firm-wide, including in the Global Fund.

Our four decades of experience, long time horizon, willingness to heavily concentrate at opportune points, friendly engagement with management, and network of industry contacts were all instrumental parts of our successful outcome at TXI. These strengths are equally relevant to all of our holdings.

Macau gaming company Melco International was down 18% YTD after a 9% second quarter decline. The price fell amid broader Macau gaming industry concerns, but Melco's business was impacted very little by much of the negative news which included lower gaming revenues, junket defaults, removal of illegal mobile credit card terminals from the gaming floor, restrictions on transit visas, and a smoking ban on the mass floor starting in October. Melco's profits are heavily weighted to the mass market, with approximately 75% of EBITDA (earnings before interest, taxes, depreciation and amortization) now coming from non-VIP business. The industry revenue decline and junket issues were related to VIP guests and had little impact on Melco. Mass gaming continued to grow over 30% without any other issues appearing to affect traffic. CEO Lawrence Ho personally bought $6 million (HK$ 48mm) worth of stock in the second quarter, adding for the first time since September 2011 when we first initiated our Melco position. We also increased our ownership during the quarter.

Global fertilizer and chemical producer OCI fell 14% over the last three months, causing the stock to also be among the primary YTD decliners. The company announced that no dividend would be paid on 2013 earnings due to pre-funding $1 billion in capital investment for 2014. We view substituting growth capital expenditure for the dividend as a solid capital allocation move by CEO Nassef Sawiris (the same partner we had at TXI), who has generated superior returns over time through greenfield expansions and financial investments. In addition to eliminating the dividend, several short-term pressures impacted the stock. OCI's Algerian fertilizer plant, Sorfert, had shipments delayed in 2013 after the Algerian government required new export license agreements. As of April 2014, the plant had returned to 100% utilization, and management expects this utilization to continue for the rest of the year. The company also reported weak utilization at its Egyptian plants due to gas curtailments, which we already accounted for in our appraisal.

Philips declined 7% in the second quarter and 11% YTD. Foreign currency exchange rate headwinds impacted reported sales, although comparable revenue was flat. Net debt increased as free cash flow (FCF) went to a one-time pension payment and share buybacks. A temporary suspension of production at a U.S. healthcare plant also impacted FCF. Management reaffirmed expectations for a "challenging" 2014, comprised of improved results at Consumer and Lighting but a continued drag from Healthcare. Management previously delivered on every aspect of 2013 targets and remains committed to 100-200 additional basis points of margin improvement by 2016. At quarter-end, the company announced plans to merge the LED and automotive lighting units into a standalone company with €1.4 billion in revenue and will explore strategic options for outside investment. This advances management's "Accelerate" plan to concentrate Philips around Health and Wellness and fundamentally increase shareholder value.

We bought four new companies in the first half, all based outside of the U.S. In addition to Vopak and Sino Land in the first quarter, we added Hopewell and K. Wah over the last three months. As these recent purchases indicate, we are currently seeing more opportunities in companies that are based in - or impacted by - macroeconomic factors in the Asia Pacific region. Broad macro fears of reduced Chinese consumer demand, as well as worries of a potential Chinese real estate bubble, have impacted companies as far ranging as Hong Kong real estate, Macau gaming, and Brazilian mining. What separates the companies we have bought from others impacted by China fears are our management partners, most of whom are significant owner-operators with track records of value creation. Conversely, in Europe and the U.S., many companies are reaching and surpassing intrinsic worth. In the first half, we sold DIRECTV, ACS, and Hochtief. We also swapped our position in CNH Industrial for parent company EXOR. The Fund's geographic distribution reflects the disparity in valuations – less than 40% of the portfolio is in U.S. companies.

The Fund finished the first half with a price-to-value ratio (P/V) in the high-70s% and cash at 13%. This liquidity will give us agility when individual stocks from our on-deck list come into the range of our required discount to intrinsic value. New purchases at deep discounts will make the P/V even more attractive as will the strong value growth we anticipate our management partners delivering.

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