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

International Fund Management Discussion

Longleaf Partners International Fund declined 1.3% in the second quarter, taking the year-to-date (YTD) return to 1.7%. The Fund underperformed the MSCI EAFE Index's 4.1% in the quarter and finished the first half below the Index's 4.8%. In spite of the weak quarter, the Fund's one year return remained well above our absolute goal of inflation plus 10% but dipped below the benchmark. Over the 15+ years since its start, Longleaf International has nearly doubled the performance of the EAFE Index.

Cumulative Returns at June 30, 2014

	Since Inception	15 Year	Ten Year	Five Year	One Year	YTD	2Q
International Fund (Inception 10/26/98)	**298.48%**	**198.21%**	**68.19%**	**67.66%**	**22.76%**	**1.67%**	**-1.30**
MSCI EAFE Index	122.76	96.08	95.49	74.41	23.57	4.78	4.09

Average Annual Returns at June 30, 2014

	Since Inception	15 Year	Ten Year	Five Year	One Year
International Fund (Inception 10/26/98)	**9.22%**	**7.56%**	**5.34%**	**10.89%**	**22.76%**
MSCI EAFE Index	5.25	4.59	6.93	11.77	23.57

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 longleafpartners.com.

The December 31,2013 total expense ratio for Longleaf Partners International Fund is 1.27%. The expense ratios is subject to fee waiver to the extent normal annual operating expenses exceed 1.75% of average annual net assets.

The Fund's top performers over the last three months also posted gains in the first quarter, thereby making them the largest YTD contributors. Cheung Kong, the Hong Kong based conglomerate with businesses around the world, returned 15% in the second quarter, pushing the YTD return to 21%. In 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. Hong Kong residential property sales accelerated after the government relaxed some stamp duty regulations. With high land valuations, our partners exercised the discipline we have come to expect – abstaining from any land purchases in Hong Kong or China for over a year.

Global cement producer Lafarge added 11% in the quarter and 16% in the half. The company announced a merger with Holcim that will create economies of scale for cost savings and combine Lafarge's innovation strength with Holcim's plant efficiency. The merger plan includes divestitures, largely in Europe, where low cost financing and economic recovery are generating buyer interest. If approved, the merger should close in the second half of 2015. Although foreign currency headwinds negatively impacted results in the second quarter, underlying revenues and operating cash flow grew nicely due to increases in volumes and pricing as well as cost containment. Lafarge also sold its Ecuador operations for a per ton price almost double our appraisal.

Norwegian branded food company Orkla contributed 9% in the quarter and 19% YTD. Orkla reported two solid consecutive quarters with improved working capital and net debt. New CEO Peter Ruzicka has been on the board of Orkla since 2006 and is focused on maximizing the branded consumer goods business by driving organic growth and minimizing costs. The company announced that it is considering an initial public offering (IPO) of Granges, its rolled aluminum business – an example of management's focus on branded consumer goods and commitment to value realization of non-core businesses.

Though a number of names retreated in the quarter, the two primary detractors, Manabi and OCI, also weighed on YTD results, as did the first quarter's lowest performer, Melco. As an illiquid security, Brazilian iron ore company Manabi is priced using input from a third party appraisal firm that examines various factors, including, among others, comparable publicly traded iron ore mining stocks and Manabi's progress to produce a valuation range. Due to a more difficult environment for mining companies, including Manabi, we moved the price down 23%, to the low end of the valuation range.

Global fertilizer and chemical producer OCI fell 14% over the last three months, offsetting the first quarter gain and creating a YTD decline of 13%. 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, who has generated solid 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.

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.

In the quarter we began buying Lida and Colt Group, bringing to six the number of new holdings this year. We also increased our stakes in Genting, Melco, and Philips over the last three months. 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, European luxury consumer goods, and Australian mining services. 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. The quality of and discounts in our Asian holdings today remind us of those in our European investments in early 2012 that subsequently rebounded and drove much of the Fund's strong performance over the last two years. With Europe's bounce back, we sold ACS in the first quarter and TNT Express in the second, when we also trimmed Ferrovial, Hochtief, and Lafarge. Following the 2013 Japan rally, we sold Nitori early this year. We also sold our small position in UGL over the last three months. We swapped the direct position in agricultural equipment and commercial truck company CNH Industrial for parent company EXOR.

The portfolio ended the quarter with a price-to-value ratio (P/V) in the high-60s% and cash at 9%. The P/V ratio became more attractive (lower) with our portfolio transactions and value growth across most holdings. We remain highly confident in the qualitative position of our strong businesses and management partners, and the current cash position gives us the flexibility to move quickly as we identify new 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 longleafpartners.com. Please read the Prospectus and Summary Prospectus carefully before investing.

RISKS

The Longleaf 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 invest 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 Funds may be more volatile than those of larger companies. 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, Australasia, 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. 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.

As of 6/30/14, the top 10 holdings in Longleaf Partners International Fund – Lafarge (7.7%), Cheung Kong (7.6%), EXOR (6.6%), Melco (6.4%), K Wah (5.9%), Orkla (5.3%), OCI (5.1%), News Corp (4.8%), Philips (4.8%), Genting (4.4%). Holdings are subject to change and holding discussions are not recommendations to buy or sell any security. Current and future holdings are subject to risk.

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