Longleaf Partners Funds

Advised by Southeastern Asset Management, Inc.®

Partners Fund Management Discussion

Longleaf Partners Fund returned 6.8% in the second quarter, outpacing the S&P 500's return of 5.2%. The Fund slightly trailed the Index year-to-date (YTD), with the performance of each rounding to 7.1%. The Partners Fund remained ahead of the Index as well as our absolute return goal of inflation plus 10% in the trailing year, despite our elevated cash position.

Cumulative Returns at June 30, 2014

	Since Inception	25 Year	20 Year	15 Year	Ten Year	Five Year	One Year	YTD	2Q
Partners Fund (Inception 4/8/87)	**1882.39%**	**1353.61%**	**633.13%**	**166.84%**	**86.87%**	**133.96%**	**29.06%**	**7.08**	**6.80**
S&P 500 Index	1146.90	957.89	547.08	89.27	111.59	136.98	24.61	7.14	5.23

Average Annual Returns at June 30, 2014

	Since Inception	25 Year	20 Year	15 Year	Ten Year	Five Year	One Year
Partners Fund (Inception 4/8/87)	**11.59%**	**11.30%**	**10.47%**	**6.76%**	**6.45%**	**18.53%**	**29.06%**
S&P 500 Index	9.70	9.89	9.79	4.35	7.78	18.83	24.61

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 the Longleaf Partners Fund is 0.92%. The expense ratio is subject to fee waiver to the extent normal annual operating expenses exceed 1.50% of average annual net assets.

The biggest performance drivers in the quarter were among the companies that contributed most to YTD gains. 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 expenditures within cash flow.

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.

CONSOL Energy returned 15% in the quarter and 21% YTD. The company announced better-than-expected earnings due to lower coal costs and stronger gas pricing and guided gas production growth of 30% over the next two years. Management is focusing on building value per share through monetizing non-core assets and moving forward with a MLP of the midstream gas assets in the second half of 2014.

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.

In the first quarter, terrible winter weather hurt FedEx results, but the stock rebounded 14% over the last three months. When the price was weak, management repurchased almost 10 million shares at a discount, equating to a 13% annualized pace. The stock rose following strong revenue growth and profits in the Ground segment and higher package volume in Express. Management also set expectations for higher margins following the completed cost restructuring over the last two years. Our appraisal grew as the much more profitable Ground business outpaced the larger Express segment that receives most of analysts' attention.

Philips declined 7% in the second quarter and 11% YTD. Foreign currency headwinds impacted reported sales, although comparable revenue was flat. Net debt increased as free cash flow (FCF, excess cash from operations) 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 (1 to 2%) 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.

Although Loews was flat in the second quarter, it remained a detractor YTD, down 9%. The first quarter price fell after underlying holdings Diamond Offshore (DO) and Boardwalk Pipeline (BWP) disappointed. In April, DO's results improved, and the company announced its first share buyback since 2004. After being punished for cutting its dividend in February, BWP outlined several attractive potential projects going forward and recovered in the second quarter. Loews' other major holding, CNA Financial Corp. had a solid quarter. Loews ramped up its own share repurchases given the discount in the stock and the lack of high-return alternatives for the company's large net cash of over $8.50/share.

The rampant merger and acquisition activity in the U.S. helped drive performance but also left few stocks selling at meaningful discounts. We did not purchase any new holdings in the first half of 2014 and added to only two, Cheung Kong and Philips more recently. Notably, neither are U.S. headquartered companies. Because we sold DIRECTV and Vulcan in the first quarter and trimmed several other holdings, cash ended the quarter at 26%, although, taking into consideration the Aon options, effective cash is 21%. This produced a drag on the Fund's total return since almost all of our stocks appreciated.

At the end of the quarter, the price-to-value ratio (P/V) stood in the mid-80s%. We expect the growing values of our holdings to help drive down the P/V, as should buying new investments that meet our criteria. A market pullback could help us invest our sizeable cash more quickly but would also impact short-term returns (not our preferred method of lowering P/V). We hope that an increase in market volatility, a few individual anomalies at specific companies, or companies with stagnant prices and high value growth give us enough qualifiers to invest our cash. While we are as committed as ever to identify opportunities, we will maintain our investment discipline that has served us and other shareholders for four decades.

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 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. Mid-cap stocks held by the Fund may be more volatile than those of larger companies.

The S&P 500 Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. 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 Fund – Level 3 (7.7%), Chesapeake Energy (7.3%), FedEx (7.3%), Loews (7.1%), Cheung Kong (7.0%), CONSOL (6.2%), Bank of New York Mellon (4.9%), Mondelez (4.9%), Abbott (4.6%), Philips (4.4%). Holdings are subject to change and are not recommendations to buy or sell any security. **Current and future holdings are subject to risk.**

Funds distributed by ALPS Distributors, Inc.

LLP000158

Expires October 15, 2014